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RURAL AREA REVITALIZATION
The Economic Problems of Rural Communities

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

APRIL 7 AND MAY 5, 1987

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RURAL AREA REVITALIZATION

The Economic Problems of Rural Communities

TUESDAY, APRIL 7, 1987

U.S. Senate,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The committee met, pursuant to notice, at 9:05 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Daschle, Lugar, Dole, Cochran, and McConnell.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The Chairman. The 1980's have been a decade of decline for rural America. Throughout this country, our small towns are in trouble.

It's disclosing nothing new to say that our farms and our farmers are hurting. Small manufacturing plants are succumbing to foreign competition. The energy industry is in trouble.

The 1970's were a decade of growth in rural America. The gap between rural and urban America narrowed. But somehow the gears shifted into reverse in the 1980's. Instead of getting better, things got worse.

Jobs are being lost and unemployment is rising. In just 2 years, 1981 to 1983, half a million jobs were lost in rural communities.

Rural counties are exporting their bumper crop—their children. Almost half of our rural counties are losing population.

Unfortunately, we are witnessing the creation of a new generation of rural poor. We are seeing the emergence of a dual economy in America. Metropolitan areas, particularly those on the coasts, will be growing based on high technology, services, and finance related activities. Small towns dependent on manufacturing, mining, and agriculture will be shrinking.

Thirty-eight percent of our poor people and two-thirds of our substandard housing are in rural areas. Ninety percent of counties with extremely high unemployment are rural.

This administration has presided over a decade of neglect and decline. Nowhere is the abandonment of rural America clearer than in the Federal budget. Despite the grim realities of economic life in rural America, the administration has repeatedly sought to shut-off funding for Federal programs essential to rural revitalization.

From 1980 to 1986, the Federal budget for programs important to rural communities was cut by two-thirds.

The administration has no strategy to revitalize rural America. The Department of Agriculture has completely dropped the ball. For the last 2 years, the Department has violated the law by failing to submit a required rural development strategy.

Rural America needs a voice in the U.S. Congress now. No committee is better suited to be a voice for rural America than this committee. I pledged at the beginning of this year that the Senate Agriculture Committee would be the voice for rural America, and it will be. I think that's especially important in the Senate because each Senator has a rural constituency. We're different from the House in this regard. So, this committee is unique in its ability to speak for rural America.

Today's hearing is the first in a series on rural problems and rural revitalization that I plan to hold throughout the spring and early summer.

I hope to develop a sound and comprehensive plan to revitalize rural America. I am confident that we will see bipartisan support for such an initiative. This is not a Democratic-Republican issue, it's an issue for our country, for one-third of America. We need a renewed national commitment to rural America and we will have one.

I'm going to yield to my good friend, Chuck Grassley for introductions. But, first, we're fortunate to have the Governor of Iowa, the Honorable Terry Branstad. He is going to be speaking on behalf of the National Governors' Association. And now Chuck, I'll yield to you—we've always considered you as an ex-officio member of this committee anyway. There is not a piece of major farm legislation that goes on the floor of the Senate that isn't checked by you first, so, we're delighted to have you here.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Thank you. I appreciated that Mr. Chairman and friend, Senator Leahy. It is my pleasure to introduce not only the Governor of Iowa but, a person who has been a friend of mine for almost 20 years and a person that I served in the Iowa legislature with.

The Governor of Iowa is here to speak as a member of the National Governors' Association, as chairman of the Task Force on Jobs, Growth, and Competitiveness and also, as chairman of the Agriculture Committee of the National Governors' Association. He is also chairman of the Midwestern Governors' Association.

I suppose that everybody in Iowa wants to be related to agriculture but, I can tell you, the Governor of Iowa is a farmowner and comes from a long line of family farmers in our State and he is a family farmer. He has also been, as I can tell by reading the newspapers, touched by the agricultural crisis in Iowa personally just like almost every family in the State of Iowa's been touched. So, he comes here not only as a spokesman for the National Governors' Association but, a person, that first hand, understands the problems of agriculture, not only from his personal experience, but also from the experience as a Governor of a major agricultural State in the Nation.

He has, as I said, served 6 years in the Iowa House of Representatives; 4 years as Lieutenant Governor of the State of Iowa and then in 1982 was elected Governor, as youngest governor that year, I think he was 34 at the time that he was first elected Governor. He was reelected in this year, or last year, at a time when—he's a Republican, I'm a Republican and, it was kind of tough out there in the Midwest for Republicans.

But, this Governor, because of the people of Iowa feeling his understanding and sensitivity to the problems of rural America returned him to office with a wide margin, one that he can feel is the response of the people of Iowa showing appreciation for his, not only understanding, but, being a spokesman for Iowa and our economic problems on a national basis.

So, it is my privilege to introduce Terry Branstad to this committee.

The CHAIRMAN. Thank you, Senator Grassley. You say it's difficult being a Republican in the Midwest, but try to be a Democrat in Vermont, and then you'll know what difficulty is. Iowa of course, is one of the predominant farm States, and if I had had any questions about that, it would have become clear the day I became chairman of this committee. Within minutes I had Tom Harkin sitting in front of me saying, "Okay, the first thing I want you to do is come on out to Iowa for a hearing." He said, "I don't want you to be reading reports about my State, I want you to see it first hand." And, indeed, I did and found that the hearing Senator Harkin organized in Iowa was one of the most impressive I have ever attended. I was quoted as saying it was one of the most moving experiences I've had since I've been in the U.S. Senate. So, my good friend and colleague, Tom Harkin, I yield to you.

Senator HARKIN. Thank you very much, Mr. Chairman, for your kind words. You stole my line, I was going to say it was tough on Republicans last year, now you know what we Democrats feel like the last 20 years.

The CHAIRMAN. We're all in it together.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. I, too, want to welcome our distinguished Governor, representing the National Governors' Association on the issue of rural development needs. I join my colleague, Senator Grassley, in saying that he does, indeed, understand, very deeply, the problems in Iowa. A family farmer himself, born and raised in a rural area of northern Iowa, Governor Branstad understands better than most elected officials what's happening in rural America. I know from my conversations with the Governor of his intense feeling that some things have to be done to get the rural areas of America moving again.

We are concerned not only about farming and getting farmers back on their feet but, also about the economic health of small businesses and rural communities. I share with the Governor his feelings that rural America is not dead. We may be down but, we're not out. We can come back. There's growth to be had out there. We've got a good labor pool. We've got people who want to work, who are well-educated, who will put in an honest day's work for an honest day's pay. They're honest, they're patriotic and they want to help rebuild this country.

Rural America has a lot going for it. Educational systems, plants and facilities, good transportation networks—we've got the basis for economic growth. Perhaps we need only a little help and assistance. I think the Federal Government can play a big role here. FRED, the Farm and Rural Economic Development Program that Senator Grassley has worked on so hard, and which I joined with him last year, is a step in the right direction. The rural development bill that we're working on now, Mr. Chairman, will also be a great assist.

But, before we can move ahead we've got to recognize the extent of the problems in rural areas. The Kansas City Federal Reserve Bank, in a recent survey, found one in four rural nonfarm businesses in serious financial difficulty.

We've had three times as many Iowa businesses—farm and nonfarm—fail in the first 2 months of this year than in the first 2 months of last year, a 300 percent increase. Of course, many of the farm business failures are because of the chapter 12 filings, but nonetheless, it gives us some indication of the financial problems in Iowa. Iowa land value, as we know, has fallen 64 percent since 1981. I don't know when the corner to economic recovery is going to be turned, but I hope fairly soon.

I want to apologize if I have to leave the hearing early. I have a longstanding engagement to give a speech in the Cannon Caucus Room on the other side of the Hill this morning. So, if I have to leave before you finish, Governor, I apologize.

The CHAIRMAN. In fact, I understand that both you and Senator Grassley have, as always happens a week before recess, put in 2 weeks worth of commitments.

Governor BRANSTAD. I thought only the legislature did that.

The CHAIRMAN. It happens to us here. If you just look at the Washington Post this morning, you'll see the list of committees that are meeting. Senator Harkin, Senator Grassley and I are on at least three or four of the different committees that are all meeting at the same time today.

Senator HARKIN. Thank you Mr. Chairman.

The CHAIRMAN. Without objection, Senator McConnell's statement will be inserted in the record.[1]

Governor, I'm delighted to have you back here. I enjoyed our meeting that we had privately a few weeks ago, when you were kind enough to come by and spend some time with me going over precisely these issues. There is one area especially that ought to unite the interest of the 50 Governors and the 100 Senators: rural development. Rural America does have major problems, and not just in the farm area. We must all work together on this problem. We don't have all the solutions, and Governors don't have all the solutions, but working together we'll do a better job than we could working separately.

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[1] See p. 75 for the prepared statement of Senator McConnell.

Senator **Harkin**. Mr. Chairman, if the Governor wouldn't mind, just before he starts—I have to leave very shortly and it probably will be at least 40 minutes before I get back. I know the next witness is going to be the distinguished mayor of Guttenberg, Iowa, Karen Merrick. I want to recognize her as one of the foremost speakers and thinkers on rural development, not only in Iowa, but across the Nation. I just want to recognize her now and apologize for having to leave.

STATEMENT OF HON. TERRY BRANSTAD, GOVERNOR, STATE OF IOWA, REPRESENTING THE NATIONAL GOVERNORS' ASSOCIATION

Governor **Branstad**. First of all, I am very honored with the big build-up that you all have given me—Senator Leahy, Senator Grassley, Senator Harkin. I also want to acknowledge we do work together in Iowa and I'm very proud that both of our Senators, who have deep interests in agriculture and rural development, are here.

I'm very pleased, Senator Leahy, to see your commitment to making the Senate Agriculture Committee an important voice for rural America. We, and the National Governors' Association and as chairman of the Agriculture Committee of that association, salute your commitment and pledge our cooperation to work with you. I also want you to know that Karen Merrick, who happens to be a Democrat, was appointed by me to serve on the Iowa Development Commission. In fact, Mike Dunn, who is now with you, is another former member of that commission. Both served with great distinction until the legislature reduced the size of the commission. We are very proud of the progress that's been made with the help of that Iowa Development Commission, and some of the things I'm going to talk about include initiatives that have come from that commission.

I appreciate this opportunity to appear before the Senate Agriculture Committee to discuss the important issue of rural development. I am pleased that the Agriculture Committee has chosen me to play a leadership role in rural development. This morning I would like to share with you my view, from the heartland of rural America, to tell you what the States are doing and suggest how the Federal Government can help.

The decade of the 1980's has, indeed, been a difficult time in rural America. Rural America has been hard hit by a downturn in commodity markets and high interest rates. After a decade of growth in the 1970's, agriculture, mineral industries, wood products, and the textile and leather industries have all hit bottom in the 1980's. Hard times in these sectors of the economy have caused painful adjustments for many citizens and communities in rural America which is the home of one in four Americans.

Let me share with you some facts that dramatize the significance of the problem.

A recent study in the "Economic Review" showed that per capita incomes in rural America during the first half of this decade grew at one-half the rate of incomes in metropolitan areas. Employment in rural areas is growing at less than one-third the rate of urban areas.

Since 1979, retail sales in towns of less than 1,000 population in Iowa have dropped by 30 percent. Over 25 percent of all grocery stores in these small communities no longer exist. Our experts at Iowa State University estimate that since 1979, over 6,500 Main Street businesses in small town Iowa have closed their doors.

Indeed, the farm crisis has not stayed on the farm. It has moved into Main Street, affecting small town merchants, rural communities, and our whole rural way of life.

It is not only America's agricultural heartland that is affected. The lumber towns of the Northwest, the oil communities of the South, the textile towns of the Southeast have all been hard hit. So, this is of significant proportion.

Rural America needs attention; attention now. And that attention should be focused on building a partnership—a partnership composed of Federal, State, and local governments, and the private sector all pitching in to help small town America revitalize itself.

The National Governors' Association and many of the States and rural communities in our country are recognizing the need for action. Under the leadership of Governor Bill Clinton, the chairman of the National Governors' Association from Arkansas, the NGA has established a task force cochaired by Governors Baliles, Dukakis and myself, and we are focusing on jobs, growth, and competitiveness and attention on how we can revitalize rural America. We are holding hearings and we are developing a game plan to build a diversified economy in rural America.

We have learned a number of lessons. We've already held one hearing out in the State of Iowa and others are scheduled. I would like to share some of those lessons with you because I believe they will help us form a basis for your agenda to develop the Federal portion of this partnership needed to help revitalize rural development in America.

One, an effective rural development strategy can be summarized in one word: diversification. Rural America's economic problems today are caused by an almost singular reliance upon one industry. Many of the communities in the heartland of our country, in my State and other States in the Midwest, rely solely upon agriculture for their economic well-being. The same is true of energy, lumber, and textile producing areas of the United States. These small communities that are relying on one sole industry must look to manufacturing or service industries to broaden their economic base. They must effectively build on their own competitive advantages—in areas like a strong education system and high worker productivity. These qualities can be particularly helpful to attract small manufacturing facilities that feed larger manufacturing or assembly plants.

For example, we in Iowa have targeted automobile component parts manufacturing business as a way to help provide jobs for small towns. We already have 124 component part manufacturing facilities, most of them located in small communities throughout our State. A number of these facilities are winning their companies' top awards for quality and productivity of their operations.

Rural communities can effectively, also, diversify in another way. Due to the advances in telecommunications and other new technologies, rural communities can effectively use telecommunications to eliminate competitive disadvantages caused by their remote locations. In fact, fiber optics cable and telecommunication uplinks are giving a competitive edge to certain rural communities.

Two, another area is to help rural America diversify its economy, Federal, State, and local governments must all be sensitive to unique rural needs. Rural America today, because of the decline in asset values, have a major problem getting capital. Bankers that have been hurt by the decline in farmland values are reluctant to make small business loans even if it has tremendous potential for economic growth in their community. Rural America needs programs targeted to assist with infrastructure improvements, needs that need to be met, capital investment, job training, and health care delivery. Job training in small communities and rural areas are unique and different from the large factory type of job training programs in our larger cities. There are some unique health care delivery needs in rural America.

There is a significant need for training and retraining assistance for rural workers and displaced farmers. In the past, Federal funds designated for these purposes have been primarily targeted to workers affected by large manufacturing plant closings. While there is still a significant need in that area, additional emphasis needs to be focused on the retraining needs of rural Americans. Iowa is one of the first States in the country to dedicate a portion of its job training funds to help retrain dislocated farmers. I would encourage you to make certain that the Worker Readjustment Assistance Program, which is now being considered by the Congress, does not ignore rural America. You should target a portion of those funds to provide for the retraining of rural workers and displaced farmers.

Rural America can diversify only if it has an infrastructure to do so. In Iowa, we have set aside a portion of our Community Development Block Grant funds to provide targeted infrastructure assistance to rural communities for projects that have economic development potential. This program is now administered by our Department of Economic Development and has been very successful. I think Karen Merrick may be able to add some more on that. In addition, we are developing an ambitious transportation program, in our State, designed to put 80 percent of our residents within 10 miles of a top quality commercial highway system, as well as upgrading airports and rail service so small communities and rural areas can meet the needs of manufacturers and businesses that want just-in-time delivery and to be able to efficiently deliver their finished products to the marketplace of the world. And we also recognize the need to provide State assistance to rural schools so that our schools in rural America can attract top quality teachers. In many cases our beginning teacher salaries are not competitive and we are in the process of changing that so that we can attract the best teachers and keep the quality of education that we're so proud of in Iowa.

The Federal Government should also make certain that it does not penalize rural areas and rural institutions with funding formulas that harm rural America. I want to point out one area that has really hurt us. That is the Federal Medicaid reimbursement structure. It is one example where Federal limits on payments are forcing many rural hospitals to close their doors and deteriorated the medical benefits needed for many of our elderly citizens.

I would encourage you to examine existing funding formulas and to make certain that rural America is not hurt. These formulas should be changed to help diversify rural economies.

Financing is also a critical component of economic development success for rural areas. At the present time, because of low commodity prices, and depressed asset values, many private investors are reluctant to invest in rural America. The Federal Government should join with the State and local efforts to encourage capital reinvestment in rural America. I think the timing now is critical for that.

I congratulate you for establishing the National Rural Development Finance Program which will provide up to $20 million of guarantee authority and $14.5 million of technical grant assistance to rural America for development purposes. That program is one you authorized and which the Department of Agriculture has failed to take action on. I am deeply concerned that while this legislation was passed in 1985, not one dime has yet been allocated to any communities in this country. I think Senator Harkin referred to it as the FRED program, that's what we call it in Iowa, I'm not sure you call it that here in Washington.

The CHAIRMAN. The fact is we authorized the program, but we don't direct it or distribute the funds.

Governor BRANSTAD. It's critical that that be done. It's a small amount of money but, it's an important step and I think that you'll find that those dollars will be leveraged by efforts at the State and local level.

In fact, in Iowa, one of our largest financial companies is willing to provide the entire capital necessary to finance this Rural Development Finance Program if only the Federal guarantee were forthcoming. So, we've got that commitment from the private sector in Iowa if the guarantee were made. I encourage you to continue to put pressure on the U.S. Department of Agriculture to put this plan in operation. In fact, it is only a modest beginning and deserves to be expanded. I hope it can be expanded and improved.

I would also encourage you to look for other ways to provide financing assistance to rural America. Many States, including Iowa, have established financial programs to help attract capital investment to rural areas. I would encourage you to develop a Federal finance program to be matched by State and local assistance to help attract industry and jobs into small communities. By teaming together in a partnership of Federal, State, local, private sector partnership, you can get a lot of benefits for a small amount of investment and, we can also share the risk.

It is important that Federal assistance be flexible. I suggest that we should authorize loan guarantees, direct loans, grants, or other forms of financing as needed to be managed by the State and local governments to ensure a maximum flexibility and effectiveness.

Certainly, incorporating a rural development loan guarantee effort in the Aggie Mae proposal that you are now considering in the Congress, would be worthy of consideration and I would encourage you to pursue it and I know that Mike Dunn has some background in that area.

During the 1960's and 1970's, the Nation's focus was on urban blight and the need to target resources to urban areas. We are all familiar with some of those programs, the UDAG program, this whole urban development effort. In the 1980's and 1990's these urban areas have become the centers of growth. It is now the rural areas that deserve the same type of attention that the urban areas received in the 1960's and 1970's. It is now the rural areas that need targeted financial assistance. The rural areas are the ones that are now hurting. I encourage you to establish a Rural Development Action Grant Program to help target financial assistance in rural communities that are seeking to diversify their economies. In the future, we would hope that any reductions that are made in Federal farm program supports should be reinvested into rural areas to help create new business and more jobs, instead of just cutting back as the administration has proposed. We would like to see anything that's—of course, many of us are reluctant to see some of those cutbacks—but, we feel, at least, if changes are going to be made, the money ought to be reinvested in rural America, the part of our economy that's hurting the most. Targeted assistance can pay real dividends in developing a diversified and healthy economic base in rural America.

Training assistance, targeted economic development and financial investment will not be enough without an additional key ingredient that I think is essential. It's got to be a partnership. We need to build a partnership between the Federal, State and local governments and the private sector. By doing so we can play a key role in revitalizing rural America. It's going to take all of us working together to revitalize rural America.

I think this committee and you, Mr. Chairman, can play a key role in helping forge that partnership by authorizing or by encouraging an Office of Rural Affairs in the U.S. Department of Agriculture to be formed. I believe that the Department of Agriculture should be taking that kind of initiative. That office would coordinate the effective delivery of rural services and serve as a liaison with the existing cabinet level rural policy working group.

Many States are already beginning to establish such offices and we are doing so in Iowa. By establishing such a program at the Federal level, you can help increase the capacity of State and local governments to deal with rural development problem and to focus their resources on it.

Finally, I would like to leave you with a success story. In 1969, Osceola, Iowa was a small town in the southern part of our State near an interstate highway—however, the interstate had been built 10 years before—but with declining population and little prospects for growth or prosperity. At that time, a small group of community leaders decided that they wanted to do something about helping their community to grow and prosper. They raised some money. They developed a plan. They established an industrial park and over the past 18 years, Osceola, Iowa has had one success after another. Oh, yes, they've had some near misses and they've had some failure, but they've had tremendous success. Today, Osceola, Iowa stands out as a community that is swimming against the tide in rural America. It is a community that has a growing population and more new businesses are coming there all the time and, what

Osceola tells us is that success can be achieved with the right leadership. We've got other communities like Guttenberg and Mt. Pleasant and other small towns in Iowa that have also been able to swim upstream against the tide because of local leadership. The Federal and State governments have a responsibility to help by providing the incentives and assistance necessary for local leaders to develop their leadership potential and the financial help and infrastructure they need to realize their full potential.

In the past, rural America just took care of itself while national attention was focused elsewhere. We were proud of that fact and, I think, that comes from the background we all have growing up in rural areas and the commitment to self-sufficiency. As a result, to a great degree, small town rural America which is really the backbone of this country has been all but forgotten by the rest of the Nation as we paid our taxes and did our thing and contributed to the development of other parts of the country. We can no longer afford to let that happen. Today, rural America calls out for attention and for action. This committee has an opportunity to show real leadership and take action to revitalize and diversify rural America.

I commend you for taking the lead in holding these hearings. I urge you to take action to become a partner with the States, with local governments, and with the private sector. We need your help to make rural America strong again.

Thank you very much. I would be pleased to take your questions.

The **Chairman**. Thank you very much, Governor, for the strong and substantive statement you've made. If this will be the position of the National Governors' Association as you emphasized, then I think we can forge a very, very powerful partnership.

Sometimes rural America tends to get lost, when you're looking at national elective offices. It's one-third of America, but if people are looking for national votes they go to the urban areas. And yet, rural America is such a vital part of our whole country. A healthy rural America also guarantees a healthy urban America. A failing or sick rural America just brings extra pressure on urban America.

I like what you said about a need for rural UDAG and for job training funds targeted to rural America. I'm also glad to hear what you said you've done in your own State. I think that there are a number of areas where a Federal-State relationship can be forged.

One of the problems in trying to develop an overall rural Federal program is to get rid of the assumption that it is a farm program. Farming, of course, is only a part of rural America. As we have taken this committee on the road to various States we have seen that rural America is diverse. Vermont is different from Iowa, Iowa is different from southern Georgia and so on. I feel very strongly that rural development programs should be given to the States with maximum flexibility to tailor to their needs. I assume you would agree with that, would you not?

Governor **Branstad**. Wholeheartedly. I am very pleased to hear you say that.

I think that the secret to success is to tap the local leadership. To be able to provide the incentives and assistance that will give them the extra boost they need. Maybe they don't have the ability to get the capital together, especially in rural America today, that's a big problem.

A lot of the financial institutions have been hurt because of land values having dropped 65 percent. And, consequently they are reluctant to take the risk. With some loan guarantees and some help from the Federal Government as well as some incentives from the State level, that problem can be overcome.

The **Chairman**. You mentioned loan guarantees several times. Do you think that's an extremely important part of it?

Governor **Branstad**. I think that's an important part of it and we've found that loan guarantees can kind of bridge the gap of where you've got a good idea and you've got the local leadership. But the financial institutions are not willing to shoulder the whole risk and a guarantee program can well mean the difference between a project going forward, creating jobs and helping revitalize a community or the opportunity being missed.

The **Chairman**. We keep hearing that the States have an awful lot of excess money and we shouldn't be considering these programs. Is that a problem in Iowa? Do you have so much excess money that you don't know what to do with it?

Governor **Branstad**. Well, no. That's not a problem.

The **Chairman**. It's not in Vermont. I was just curious about Iowa.

Governor **Branstad**. A lot of the States, especially the agriculture and energy States are hurting. And, in fact, I would say, in the 1970's we had surpluses. In the 1980's we've been fighting to keep our budget balanced. We had four across-the-board cuts in spending since 1980.

Last year the State of Iowa did a major reorganization and downsizing that cut $50 million out of the operating expenses of State government. We went from 68 departments to 24 and we've made major changes in the structure of State government to become more streamlined, to reduce costs. And, at the same time, we've tried to find a way to put more of our limited resources into development and, especially rural development. Our State only has, I think, five cities over 50,000. So, for the most part, Iowa is rural and consequently it's a very major problem in my State. But, I think that's true in a lot of States, especially in the Midwest.

The **Chairman**. Senator Grassley, did you have anything else you wanted to add?

Senator **Grassley**. Only to bring further attention to the Governor's examples of a few communities like Guttenberg, where Karen is from, Osceola, and Mt. Pleasant. I can add to that maybe Fairfield, and Centerfield as some examples of where local initiative has made a real difference. An oasis in an economic desert that the rest of the Midwest is, and I suppose to emphasize that Governor Dukakis has been to our State campaigning for the office of President recently. He is a reminder, as well as a hope, for our State in the sense of pointing out, 10 to 12 years ago, the condition economically that his State and presumably the rest of New England was in, they've turned around now, have a growth of population that results from jobs. It can be overcome, it will be overcome. Probably we've a got better hope of doing it in the Midwest than any other place in the country.

But, also, a sad commentary is that 2.7 million jobs can be created in the United States between February of 1986 and February of 1987, 41 percent of those in the highest classification, paying classification, that the Department of Labor keeps track of. So, these are not low paying jobs that were created. Forty-one percent is higher than any that's been, jobs created in that classification, even at a time where losing a lot of smokestack type high paying jobs that we can overcome it, but those jobs aren't being created in the Midwest and the rural areas of America. They obviously are being created though by the Fortune 500's.

The hope comes from the type of businesses that locate in the Guttenbergs and the Osceolas and the Mt. Pleasants and communities like that. I suppose to see that there is a even distribution of the turnaround in this country, is going to be the main reliance upon State and local governments and communities. But, there obviously, Terry and I feel that there is obviously a role for the Federal Government to play in this.

The CHAIRMAN. Well, I feel the same way. The quality of life that we have available to us in rural areas should attract those kinds of jobs. I listened with interest when you mentioned that Governor Dukakis from Massachusetts—we refer to that as a Southern State in Vermont—had been to Iowa. I must point out that my own hearings in Iowa were simply Agriculture Committee business and for no other reason.

Speaking of which, I want to note with pride and pleasure that the Republican leader of the Senate, Senator Dole is also here. And, Bob, we just heard from Governor Branstad, Chuck Grassley and Tom Harkin, who have been talking about some of the problems of rural America as we start off this series of hearings. We will have a number of hearings in other parts of the country, too. I didn't know whether you wanted to make a statement or ask any questions because my intention is to recess for 5 minutes. We have an agricultural bill that must be dealt with as soon as possible. A couple of phone calls should clear up the matter.

Senator DOLE. I do have a prepared statement I would like to put in the record.

The CHAIRMAN. My stock went up considerably in Iowa when I said I knew you while I was out there, Bob.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. I think we're all concerned about rural development. It is a complex issue to get a handle on. We have been told there are about 26 subcommittees that deal with this issue, so it would seem to us we need a coordinated focus on rural development.

As the Governor may have pointed out, we've had a series of meetings where our Republican Task Force on Farm and Rural America discussed this issue. We felt that if we couldn't get Republicans to agree, it didn't do much good to come to the chairman and others in the Congress to ask for their support. Based on the meetings on farm policy, farm credit, agricultural trade and exports, and economic development in rural areas, we have developed a series of resolutions, and would like to generate broad bipartisan support in the various areas mentioned and I'll be distributing copies of the resolutions later.

I ask that my statement be made a part of the record and thank you for conducting this hearing. Thank you, Governor, for coming all the way from Iowa.

The CHAIRMAN. Without objection, it will be included.[1]

I would note that Senator Dole has shown great concern and demonstrated strong leadership on issues concerning rural America. It's an area where the Governors and the Senators ought to be able to find common ground no matter what our parties might be because every Governor and every Senator has a rural constituency. And, every Governor and every Senator knows that there are problems in rural America, no matter what State we're from. We have to give a voice to rural America's problems. This committee, I feel, can do that better than any other because of our unique charter. Our capability increases when we work with the Governors because then we can tap individual expertise. Governors have to deal with these problems every single day, every hour of the day. We can focus on other issues, but they deal with it every single day.

I should note for my good friend Dick Lugar, that one of the more pleasurable evenings I spent was last night with my son Kevin when we went to see "Hoosiers".

Senator LUGAR. Right.

The CHAIRMAN. I enjoyed that, especially since my son plays basketball. He towers over me, and he is a much better basketball player than I am.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Well, Mr. Chairman, I thank you for the endorsement of that beautiful movie. It's been a heady time for us with the ball teams and there's always the movie. I just appreciate echoing the sentiments of the distinguished majority leader, Bob Dole who has played such an important role in the area of rural development for a long time. And, I congratulate you, Mr. Chairman, on conducting the series of hearings. You have a distinguished lead-off witness with the Governor of Iowa today, accompanied by Chuck Grassley. I noted in the prepared statement, and I appreciated very much the emphasis, upon the infrastructure of Iowa. Certainly Governor Branstad has offered testimony for this committee on many occasions on production problems, on pricing, and on the ways in which farm income could come to producers.

The interest here today is, in addition to that, and that's a very important objective of our committee, what is to occur in all of the small towns and counties of Iowa, Kansas, Indiana, and Vermont, for that matter, that becomes, I think, increasingly important as this transition period in agriculture moves on. We're hearing, as you can imagine, Governor Branstad, from people who sell fertilizer, who sell tractors, quite apart from bankers who already have loans and problems that the committee has taken cognizance of.

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[1] See p. 77 for the prepared statement of Senator Dole.

This seems to me as a role that no other committee is committed to play. We're going to sort of lose some people between the pieces if we're not successful in that. So, we're grateful, once again, to you for representing the Governors and your own State for your wisdom this morning and for initiating this series of hearings.

Governor **Branstad**. First of all, Senator, I want to thank the Indiana Hoosiers who beat Iowa once during the season. We beat them once, but they won the NCAA tournament. We congratulate your team, and I think that movie "Hoosiers," which I also saw, is maybe one of the things that says a lot about rural America—not only rural Indiana but rural America. Many of us grew up going to small schools and playing basketball on some of those basketball courts that are well depicted in that movie. It has been a very popular movie in Iowa, even though we do not like Bobby Knight at all. [Laughter.]

But we appreciate your interest and that of Senator Dole and the leadership that Senator Leahy and others on this committee are providing to this area. I can give you the commitment not only for myself and the Agriculture Committee, but also from Bill Clinton, the Governor of Arkansas, who is Chairman of the National Governors, that this is one of his priorities, and he appointed a task force on jobs growth and competitiveness because he recognizes there is a major problem in rural America. And the Governors want to work in cooperation with the Federal level and the local level to build the kind of partnerships that are necessary to revitalize rural America. We appreciate your being here.

Senator **Lugar**. As I recall, there is one line in the "Hoosiers" movie where they come down to the Butler Field House for the State championship, and I suppose one of the most emotional lines is, you know, let us win this one for the small town. I think that is essentially what we are dealing with here, and we appreciate so much your coming to bear witness to that.

Governor **Branstad**. Thank you.

Senator **Lugar**. Let me just say on behalf of the chairman, unless there are further comments from Senator Dole or Grassley or you, Governor Branstad, he has asked me to declare a recess for a few minutes. Before declaring that, let me just ask if there is any further addition in this part of our testimony?

[No response.]

Senator **Lugar**. If not, we will have a short recess, and then proceed with the next witnesses.

[Short recess.]

The **Chairman**. If I could call Mayor Merrick, Supervisor Thompson, Town Clerk Vobejda, and Judge Everett to come up and join us. Which one is Ms. Vobejda? How close did I come to getting your name right?

Ms. **Vobejda**. Almost perfect.

The **Chairman**. I am getting better. Let us start from there. Madam Mayor, after all the nice things everybody said about you up here, I was surprised that you did not stand up and announce for office of some sort. You had the TV cameras ready to go and everything else.

I will ask each witness to try to limit themselves to 7 minutes. A little red light will go on here in front of me at the end of that 7 minutes with each witness. Each prepared statement, of course, will be made part of the record.

It has been my experience that when the members of the committee go back and read the transcript of the hearing, they skim down through the testimony. So if you have a point you want to make sure we remember, you may want to begin with that one.

Madam Mayor, we will begin with you.

STATEMENT OF HON. KAREN MERRICK, MAYOR, GUTTENBERG, IA

Mayor MERRICK. Thank you, Mr. Chairman. I was tempted to jump up and announce, but I was not quite sure which office I should be announcing for, so I restrained myself.[1]

I guess, if I could, sir, rather than use all of my 7 minutes, the four of us before you would like each of us to give a small presentation, and then if we could use any time that I have left out of my 7 minutes to establish some kind of dialog, a question-and-answer period, I would appreciate that.

The CHAIRMAN. I think that would work very well.

Mayor MERRICK. Let me give you, if I could, a little overview of our community, and then tell you perhaps what I view as some linkages between what is happening in Guttenberg and other Iowa communities, some samenesses, if you will, and then perhaps a little intuitive feeling that I have about what the Federal Government could be offering us.

First of all, Guttenberg has thought of itself historically as an agriculture community. In 1979, we created for the first time in our history an industrial development group. By 1981 that group had done absolutely nothing. We were floundering pretty much in our own inability to act, and our inability to act was based on anger at the Federal Government and at the State government for not coming in and bailing us out of our predicament.

Well, you see, not only were we agriculture based, but we had also lost a major employer in our community, and so we had unemployment rates that were hovering at 21 percent.

By 1981, again for 2 years, nothing had been accomplished, and something happened then in 1981 that changed our perception of ourselves and has been kind of the lightning rod to bring us to where we are today, which is to become a successful community in economic development.

In 1981, a national company came to Guttenberg and looked at us to buy a vacant building in a community and to put in a satellite manufacturing facility there and employ about 150 people. Not one of the seven of us on that economic development group knew that we were even being looked at. The company came in once; they came in twice, and the second time they came in, the price of the building escalated. When they left, they lost the jobs and we lost the opportunity, and we also lost our ability to blame the Federal Government and the State government for our problems.

We had to look, then, at ourselves and say that we were not prepared to change our community. From that point until today, what we have done is reanalyze what our assets are, what our liabilities are, and to remake what we are. Because of that ability to sit and to plan and to think critically about the 2,448 people who live in the northeast corner of Iowa on the Mississippi River, we have been successful. We have created an industrial park that is now full. We have recruited three new manufacturers to add to the three that are already existing. We took a local manufacturer, and we helped him to expand from just a machine shop to a manufacturer of grain truck bodies and bicycles and boats, all aluminum products.

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[1] See p. 83 for the prepared statement of Mayor Merrick.

Then a few years ago, again in that critical thinking process, we began to say, are we only to become an industrial center? Is industrial development the only thing that we are to become, or should we be looking at economic development in its broader context and broader sense?

When we started to do that, we began to look at the Mississippi River and the ability of this small community that is not by an interstate to perhaps attract the tourists to our community. So we broadened our outlook and broadened what we thought of ourselves and changed then the direction of the community, again from not just industrial development to economic development in its broadest sense.

Because of the successes I have had in Guttenberg, I have been asked by several small communities in our State to come and talk to them about how they too can become successful. I find it interesting that we have some common threads that kind of tie us all together. One of them is, that in most of the small communities in Iowa, there is a crying need for technical assistance and information, that people come to me and they say how do you do A, B, and C? How do you define yourself? How do you plan? How do you attract an industry? How do you help a local entrepreneur? How do you address the educational issues at the local level? How, how, how do you do it? They need information and they need technical assistance.

Another common problem they have is these community efforts are volunteer efforts. The people that you see here before you are not well paid. We are volunteers, for the most part. The people who are running the efforts in Guttenberg, Iowa, are volunteers. So you have a tremendous problem, then, with burnout of those people. Burnout from people comes particularly when they do not have the ability to plan well in the use of their time and their assets. My red light is on, and I did not use my 7 minutes.

If I could finish then, what I would say for the Federal program, if I could design a Federal program, it would have two things in it: One is a commitment from the Federal Government to the State government to work together within a regional basis in the States to provide technical assistance, and also to help in leadership development at the local level through that regional planning authority.

Thank you, Senator.

The CHAIRMAN. Thank you very much. You expressed very well the fact that we are dealing predominantly in rural areas with volunteers. I know what that means in my own State, and I am sure it is the same situation in Iowa or Mississippi or anywhere else.

Our next witness is the County Supervisor of Hinds County, Mississippi, the Honorable Bennie Thompson. Mr. Thompson.

STATEMENT OF BENNIE G. THOMPSON, SUPERVISOR, DISTRICT 2, JACKSON, HINDS COUNTY, MS

Mr. THOMPSON. Thank you, Mr. Chairman.

My name is Bennie Thompson. I am supervisor of District 2 in Hinds County, MS.[1] I have been an elected official in my community for the past 18 years, and I also serve as Chairman of the Board of Directors of the Housing Assistance Council, a nonprofit housing group based here in Washington.

With respect to Mississippi's and Hinds County's economic conditions, I simply say that many of President Reagan's policies have been detrimental to us. Fortunately, Congress has not followed the President's suggestions.

We all know too well the horror stories of Mississippi. I could tell you as many of them as you would like to hear. I could tell you that we have the highest percentage of States in the Union with people below the poverty level. I could tell you that 50 percent of the people of our adult population have not finished high school. I can tell you that 38 percent of the students enrolled in school right now will drop out before finishing high school.

But also I can tell you some other problems. Mississippi's unemployment rate averages 11.7 percent, and over one-third of our counties have an unemployment rate of over 15 percent. Personal income is 30 percent below the national average. But even with that, we have tried to do something on our own, and I would like to share some of that with you.

We continue to spend $20 per $1,000 of personal income on higher education. That is 28 percent above the national average. We rank 12th in the Nation in actual dollars spent per student in higher education. And we recently passed a tax increase that will build 1,000 miles of four-lane highway and to raise teacher salaries.

With all these, we submit to you, it will help in the rural development area. But there is a major problem with Mississippi: it is our tax structure, it is the income of the people who live there. Our tax effort overall is very high. We are something like 95 percent of the national average in terms of the effort, but we only have 70 percent of the potential for that tax effort. So we are really overtaxed already.

Now, with the loss of Federal dollars to support Mississippi's problem, we are rapidly approaching a crisis situation. As I said earlier, I have been an elected official for 18 years, and I can remember the days of revenue sharing, a number of programs that have come and gone. But I can also look back and see the time that, while I was a mayor and subsequently county supervisor, where we had day care centers, mental health centers, solid waste collection programs, financed by taxes rather than service fees. We had parks for our kids to play in. We had housing programs that were affordable. We had law enforcement that was properly equipped. We had fire protection, and we had education. But now with the cutbacks and what have you, we are suffering.

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[1] See p. 87 for the prepared statement of Mr. Thompson.

I might add that probably if we built less bombers we could probably educate and feed a number of our young people, which in my estimation is our future.

The other very short point I would like to make to you is that it is unfair to make the rural communities compete on the same level with the urban communities for the programs. If I have to apply for a grant, somehow we have to make a distinction between that urban community and that rural community. You cannot have me competing for a community development block grant and have the same unit of measure for the largest municipality in the State as you would the smaller. The small community will always come out on the short end.

The EDA program, which has been a lifeblood to many of our small communities, you know, we cannot continue to put people in those offices whose mission is to kill the program. That is ridiculous.

You know, my industrial park in the community I live in is because of an EDA program. Otherwise, I would not have an industrial park.

The other thing you have to do is design programs that make sense for rural communities. That community should not be made to qualify for the program; the program should help qualify the community. You know, if I have to count the dogs and chickens to get to 2,000, then I am going to count the dogs and chickens. But, now, if you just tell me you come in with——

The CHAIRMAN. At least once.

Mr. THOMPSON. Right. But if you tell me to come in with a need, then I will come in with a need. But do not give me a superficial number to try to make me look toward.

The other thing, we have to have Federal initiatives. Mississippi has not been in the least a leader in rural development or, for that matter, many other things. But you have to have some Federal initiatives to encourage us. We do not have an overall economic development plan for the State. We do not have a rural development strategy. We do not have a number of things that we should have, but the feds could help us by encouraging that and establishing some pools of money, perhaps, that would encourage it.

Lastly, I would say that in this committee's infinite wisdom and knowledge that you do not forget us. As you said earlier, we make up about one-third of the population of the country, and in Mississippi we make up about 90 percent if you are talking rural areas. The population of the community I live in is about 600, and I do not plan to leave there, but unless things get better, some of my friends will have to.

I thank you.

The CHAIRMAN. Thank you very much, Mr. Thompson. I am going to turn the chair over to Senator Daschle of South Dakota. I am told that the majority leader intends to move to a piece of agricultural legislation some time in the next half hour, and I have been asked to go to the floor.

The next witness will be the Town Clerk of Blackberry Township, Minnesota, Darlene Vobejda followed by Judge/Executive of Fulton County, Kentucky, Judge Everett.

Again, I will attempt to return later. The record, of course, will be kept open for other statements and any additional statements that the witnesses want to make or any response they have to other comments they have heard here.[1]

Again, if it is any consolation, I understand the frustrations involved. I talked with town officials in the town where my wife, our children and myself spend most of our time when we're in Vermont. There are about 1,200 people in this town. It has experienced certain problems. For one thing, the population had been 800 people for nearly 100 years. It suddenly rose to 1,200 people during the last 5 or 6 years. Now, 500 people, one way or the other, in most places does not seem like an awful lot, but it was a 50 percent growth increase with all the enormous problems that go with it. First, we had an increase of schoolchildren. We had to deal with the infrastructure. Where do you get people to be the road commissioner? How do you find a way to maintain a tax base other than through residential taxes? How do you protect the remaining farms in the area without raising the value of their land so that it equals what it would be if you were to subdivide valuable farmland into residential lots? And all the other issues that accompany that. How do you provide any kind of medical care and proper housing for a mixed community, from very poor to the well-to-do? What do you do in that regard?

What do you do with these poor families whose children have learning disabilities who also want to send them to the public schools? These become major issues in rural America.

We have talked about the hearings in Iowa. I have also been down in Mississippi with Senator Cochran, another member of this committee, holding hearings in a rural area of that State a couple of years ago. I remember some of the testimony presented there about getting a housing program that works.

We hear the word housing programs. We are talking about rural America, and you are talking about millions and millions of dollars. You can hire a full-time planner, and you can hire a full-time accountant. You can hire a full-time this, that and the other thing. What units do you substitute in rural America for those three units of housing or those four units of housing? And yet the ratio of homeless people in rural America to those in urban America is disproportionate.

I do not mean to suggest that we are going to set urban against rural, but we must understand that programs that work in one area may not work well in the other. We have got to find a better way of tailoring programs to rural America.

Your comment, Mr. Thompson, that you want to know what the program is supposed to do, that you do not want to be out there just counting whatever moves, whether it has got four feet or two feet, is a very good one. I think that sometimes accounting rules are simply a result of taking an urban program and trying to make it fit a rural area instead of designing an entirely different program.

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[1] See p. 79 for the prepared statement of Senator Cochran.

I will turn it over to the capable hands of Senator Daschle of South Dakota. Thank you, Tom.

Senator DASCHLE [presiding]. Thank you, Mr. Chairman.

Our next witness will be the Honorable Darlene Vobejda, the town clerk of Blackberry Township, MN. Darlene, we are delighted you could join us. Coming from South Dakota, I can appreciate the distance that you have come to testify. As you might expect, this is a very busy time, and we have got our Members spread out over a multitude of different committees, but we are very pleased, and you can be assured that the entire text of your statement will be entered in the record, and we invite you to proceed in anyway you see fit.

STATEMENT OF DARLENE A. VOBEJDA, ELECTED CLERK, TOWNSHIP OF BLACKBERRY, MN, APPOINTED CLERK OF THE CITY OF DEER RIVER, ELECTED STATE DIRECTOR, MINNESOTA ASSOCIATION OF TOWNSHIPS

Ms. VOBEJDA. Thank you very much. It is both an honor and a privilege to be here and to represent rural Minnesota.[1]

I would not be here if it was not for the National Association of Towns and Townships because they are paying my expenses. The little town that I represent cannot afford to send people to Washington, D.C.; neither could the city where I am employed as a city clerk afford to send me to Washington, D.C.

When I asked the city council—I had only been working for the city for 1 month—can I go to Washington, they gulped real hard and said, well, as long as you have got all your work caught up, yes, we will let you go for a couple of days. So here I am.

In Minnesota, there are 1,801 townships, and we are small. When you talk about 1,000 people, most of us are 600 and under. In Blackberry, we are rural area, and we do not have too much farming—what farming there is, because we are so far north and very small. We have resorts because we have a lot of lakes and that type of thing. However, I represent all of Minnesota, and of course, southern Minnesota and middle Minnesota has a lot of farming. We are all down.

I would like mainly to talk about my area because of the fact that the taconite industry is down. There are no jobs. The people are leaving. In the area that I represent, Itasca County, just in the 15 miles around where I live, there are over 1,000 homes for sale. The property values are dropping so fast that the tax assessors are pulling their hair out, and they just cannot keep up with it. They just do not know how to set it.

What does that mean to small governments like my own? It means a lot. What do you do? The young people are leaving. We have mainly older people left because they are on fixed incomes. They have their homes. They cannot sell them; nobody wants to buy them so they are stuck there. But the young people are leaving.

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[1] See p. 93 for the prepared statement of Ms. Vobejda.

What do we do? How do we provide jobs for them? You talk about rural development. We bring in one or two things, but that is not enough. How do these rural areas like my own little township, how do we know about grants? How do we know what the Federal Government has to offer? That is our main problem in this whole situation: that we are so small, we are all volunteers or the same as volunteers. When I first began working for Blackberry Township 15 years ago, I was paid $10 a month and now I am paid $100 a month, so I am really overpaid.

So you must realize that we put in so many hours that we are at the point of burnout almost all the time. We feel it is necessary. It is like going to church. It is a dedicated thing for our communities. But what we need from the Federal Government is people to show us how to do these things, what grants are available, what loans are available in what areas, and just how to do these things. I think that is the main thing.

In each of our counties in Minnesota, we have a county association for townships. We get together and discuss our problems, and then we have the Minnesota Association of Townships which I am on the board of directors and we get together every other month to look our problems over and see what we can do for our towns and townships. Of course, we have the national association in Washington. But we are so small that a lot of times we do not have the money, we do not have the backing. How do we do these things?

I know that you have talked about the Rural Revitalization Act of 1987 and Senator Leahy has presented that. These types of things will give us a lot of backing, a lot of help. I also know that Dave Durenberger is working on the Targeted Fiscal Assistance Act, and that will help us also.

When revenue sharing went down, you must realize that most—and when I say most—almost all of the small governments receive no other Federal money whatsoever.

When you took away the Federal revenue sharing, you took away what you were giving us. Now, the State of Minnesota is looking at the local government aid. The local government aid is kind of unique to Minnesota, but that gives a lot of money back to the small townships, and that looks like we are going to lose a portion of that again.

Another problem that we have in our area is less than one-third of the land in Itasca County is owned by the private landowner. That means it is owned by the Federal Government. Actually, they do not pay taxes on the land that they own. So the land in those areas have to make up all of the services. They have to pay the taxes that provide all of the services in those small townships, in those areas.

We do not receive any money back from the Federal Government. When the money does come back from the Federal Government, it goes to the counties, but none of it is disbursed back to the townships. Yet we provide the fire service; we provide the roads; we provide everything that is provided in those areas. Yet we have no taxing base. So you need to look at that real strongly.

Why did the taconite industry go down? Mainly because there is no market for the steel. That means that because of foreign imports and things like that, there are no markets to sell the taconite for those types of things.

I do not know how to turn that around. I am not even going to begin to, but that is why the people are leaving our area. From my area, probably half of them worked in the mining industry, and now they are no longer working.

We do not even talk about figures as far as unemployment because it is such an unrealistic figure. The people are out of work. They have been out of work for such a long time that they are not on the unemployment rolls, so they are not even being counted any more. That is why they have left.

What to do about the houses? They talk about needing houses in other areas. We have got a lot of houses, send the people up. Send the jobs.

One of the other problems that I see are the programs that are provided by both the State and the Federal Government, when they come in they are targeted at the unemployed. We have some people who have technical training. They go to get these jobs from the DNR, the Department of Natural Resources; they cannot get on the programs because they are not down and out. So then they are hiring the people who are on welfare and other types of things. Those people get the jobs. The middle income people are just kind of left in limbo. Maybe their wife is working or something like that, so they do not qualify. I see that as a real problem in our area also because of the fact that we do have a lot of wood product and that type of thing.

The only reason in our area that we are still functioning quite well is because of the wood industry, because of the Blandin Paper Company where they make paper. The majority of our people work there that are left.

We do not know how long that is going to continue for the simple fact that the Blandin Paper Company has been bought by an outside company now from another country. We do not know how they are going to look at the area and see that things are going.

I notice that the red light has come on. I want to say do not cut the small city block grant program. Do not take away EDA or the Rural Development Act. Those are the things that have been pumping money into us. Please do not take them away from us. Please add to them, give us other programs. The technical assistance is the one that we need the most.

Thank you very much. It has been a privilege.

Senator DASCHLE. Thank you very much, Darlene, for that eloquent insight into the difficulties that you are experiencing. You could take that township and multiply it by the hundreds of townships that exist in the Upper Midwest. In fact, I am quite sure that a township official in my State or Nebraska or Iowa could articulate, perhaps not as eloquently as you did, but certainly with as much authority, the circumstances that you have just described.

I have some questions, but I think I will call upon James Everett, the County Judge/Executive for Fulton County, KY, to present his testimony to the committee prior to the time that I ask some questions.

We are pleased to have you with us, Mr. Everett, and we invite you to proceed with your testimony any way you see fit.

STATEMENT OF JAMES M. EVERETT, COUNTY JUDGE/EXECUTIVE, FULTON COUNTY, KY

Judge EVERETT. Thank you, Senator. We do appreciate the opportunity to be here today and to share with you some of the heartfelt concerns and problems that we have that we feel like a lot of times are very seriously overlooked. I am going to divert from the prepared statement to just share with you some of our specific concerns and some of the things that we have been doing in a very small area.[1]

The entire population of our county is just 8,000, and the county seat is less than 3,000. We are talking about a rural area that has been declining in population since 1920. That is a very strong trend to try to overcome, but within the past 3 years, our folks have begun to realize that we have got to pull our efforts together and that we have got to move in a direction differently than what we have been doing in the past; that is, relying predominantly upon the farm and farm-related agricultural economy, for income.

It has become a very difficult uphill battle to identify those resources that we have, and we do have some major resources that will be of tremendous help to us in the next few years to help overcome some of that problem. But we feel like that there is a willingness and there is a cadre of volunteers that are willing to dedicate themselves to rural economic development in our small communities. But they are lacking in a lot of areas; that is, training—I feel like there needs to be some leadership training opportunities for our volunteers.

I know, for example, when I go to meetings and opportunities for conferences, I learn more in talking with other county managers and county executives than I do staying at home. And it helps me to see how they solve problems and how they look at the situation.

I also feel like we are suffering from a major problem; with all due respect to the U. S. Department of Agriculture, the rural development as an entire package has not been addressed. We may have something in writing that says what a policy is, but it is not being implemented down in my territory, down on the local level. And we need help.

The policy statements are fine and the situation is very good to be able to write a statement, but for us to be able to obtain the assistance that we need is going to take something much more than that. I applaud this committee and your interest and your work in this area. I feel like we are going to have to do some major things together in a partnership—which has already been mentioned here this morning—from the local, State and Federal level to address the declining rural economy.

You know, this is just as much an urban problem as it is a rural problem. I feel like that sometimes we try to separate the two. We are talking about America and Americans, and we serve the same people, we serve those same constituents in trying to provide jobs and opportunities for them.

There are many, many advantages in a rural area and in a small community that can be provided. There are many things that we can do, but we need that help and we need technical assistance to do that, which has already been mentioned.

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[1] See p. 101 for the prepared statement of Judge Everett.

For example, our area development district, which is funded by EDA in part; and, also the National Association of Development Organizations—both of which I have worked very closely with—I could not do without because that is where I gain the information and the knowledge that I need to try to work with the local people in the community. But we need more of that. They are spread far too thin, and the funding for the Economic Development Administration is very, very critical to the development of rural America.

In my prepared statement, you saw that we built an area vocational center when I was director of the school there 15 years ago, partly with EDA funds, to help train our young people. Well, now our young people are leaving the area to go other places to work because we do not have the jobs for them.

So we have got to continue that effort. It is a continual development pattern and process that takes the partnership.

We also mentioned the river port. We are on the Mississippi River, and we feel like that the river operations do have a positive force in the future. But the river trade needs some assistance right now. It is something that is hurting.

So there are many, many tools and many, many efforts that can blend together in that partnership to help rural America, and we are yearning for that assistance. The money, certainly, is a big thing, and venture capital and opportunity to be able to tap loans and grants and resources to do the development is very, very critical, and I agree with that.

I think as equally important is the fact that we need to wake up and realize that we are not going to have a rural America if we do not begin together and if we do not look together with the Department of Agriculture and those of you that are in Congress that are working on our behalf to help put these programs together. There are many, many development efforts that have been zeroed out in the budget. There are many, many line items that have helped us get to where we are to try to help ourselves. I believe in self-help. I do not believe in going around constantly with my hand held out, but I feel like that for us to be able to reach the potential that we have as Americans and to provide those opportunities, that we are going to have to get serious about the development effort of rural America.

[Committee Note: James M. Everett, County Judge/Executive, Fulton County, KY, submitted a contents for Enterprise Zone Economic Development Program, which included previously printed publications. The material is retained in the Committee file.]

Senator **Daschle**. Thank you very much, Mr. Everett. I could not agree with you more, and more enthusiastically. I feel in my own office—having just come to the Senate—that economic development is really one of the more critical challenges facing our State. And as it is, I attempted to begin organizing an economic development section within my office.

But in order to do that properly, I am wondering how the Federal Government can be more helpful. I would like to ask a couple of questions along those lines.

First of all, let me ask any one of you, as we compare what we have in April 1987 to any time, perhaps, in the last 20 years, was there a time during that period within which your relationship with the Federal Government and programs that were there to assist you were more evident and a lot more successful?

Mayor **Merrick**. Absolutely. In my prepared statement, I use the word "abandonment." I think that with this administration that there has been an ongoing sense of abandonment in the rural areas of this Nation; and that before the advent of the horror story for rural America called New Federalism, we had the ability to be helped rather substantially from the Federal Government.

We all know that right now there is not any money at the Federal level, at the State level, or at the local level. But the question has to be asked, why is there not any money at the Federal level? Most of us realize what that answer is, and that is setting of priorities that is coming down from the administration.

New Federalism was a way to help set one of those priorities, and it hit us; it kicked us right in the teeth in rural America.

So before that, we had an opportunity to diversify ourselves and to have many and varied sources of wealth for our citizens. Now, we have essentially no help from the Federal Government.

Senator **Daschle**. So what you are saying is, this so-called New Federalism was nothing more than a euphemistic phrase to describe wholesale abandonment of Federal policies toward rural America.

Mayor **Merrick**. Absolutely. And I do not think that what I was hearing last night from my colleagues was any different. I think that the four of us would agree with that statement.

Senator **Daschle**. Mr. Thompson.

Mr. **Thompson**. Absolutely, Senator. I happen to have served as a mayor from 1973 until 1979 and saw programs that meant a lot to communities. We had programs that were designed to address specific needs, but with the advent of New Federalism, as has been stated earlier, the bottom fell out. My community——

Senator **Daschle**. I know you have to leave in 5 minutes, but let me just be specific with regard to one question.

Could you give me your assessment, looking back, as to the two or three programs that really hit you in the pocketbook, that really when taken away has just devastated your ability to cope with economic development and the natural progression of vitality in your area? If you will answer that, I know I have to excuse you.

Mr. **Thompson**. Well, I think, one, you have to look at the Economic Development Administration whose mission, obviously, is just what its name indicates.

Senator **Daschle**. That is first.

Mr. **Thompson**. That is right.

Senator **Daschle**. Second?

Mr. **Thompson**. Second, I would have to look at the manner in which some of the HUD programs have been utilized. The one problem that I see with them for rural areas is you make the criteria for the rural area the same as for the urban area, and it puts that rural area at a disadvantage when competing for moneys.

Senator **Daschle**. What you are saying is that there was a time when the unique nature of rural areas was understood.

Mr. THOMPSON. And addressed.

Senator DASCHLE. And the programs were addressed differently.

Mr. THOMPSON. That is correct.

Senator DASCHLE. Than they are today. So that is number two.

Mr. THOMPSON. What I would say number three would be is sort of a catch-all with the Department of Agriculture. The problem I have, and I look at Farmers Home specifically, you give the mandate for that agency too many heads. You give it housing, you give it farm subsidy, you give it community facilities, you give it industrial development, and countless other directions. And you give one person in that county the responsibility for managing it. Absolutely unworkable.

Because of that, I was looking at some statistics this week, most of those Farmers Home agencies are probably spending around 10 to 15 percent levels halfway through the budget because of the paperwork and all the other requirements, but the needs are still there. So, you know, you have basically tied the hands of those agencies by giving them all those responsibilities.

Senator DASCHLE. I was just handed what would otherwise be a fascinating chart with regard to budget, which just confirms what you have just said. Farmers Home waste water and disposal grants, 1980, $290 million; 1988, zero. Water and waste disposal loans, $700 million; 1988, zero. Community facility loans, $240 million in 1980; 1988, zero. Business and industry loans, $1073.8 billion; 1988, zero. Fire protection grants, $3.5 million; proposed 1988, zero. Rental housing loans, $881.3 million; proposed 1988, zero.

You know, I get as frustrated as I can be when I hear somebody, as I just heard last week, say once again domestic programs have not taken a cut, they just have not grown as fast. I do not know if you have heard the same thing I have heard, but you hear it incessantly.

Mr. THOMPSON. That is right.

Senator DASCHLE. And that some budget poppycock. All you have to do is look at this chart. I ask unanimous consent that it be inserted in the hearing record at this time, both pages, because it just completely destroys whatever arguments some would make that this New Federalism has not dramatically altered the face of Federal programs designed to assist rural America.

[The charts referred to by Senator Daschle follow:]

FEDERAL BUDGET COMPARISON, FY 1980-1988, RURAL PROGRAMS

	1980	1981	1982	1983	1984	1985	1986	1987	Proposed 1988
DEPARTMENT OF AGRICULTURE									
FmHA									
Water & Waste Disposal Grants	290.0	200.0	125.0	300.0	90.0	115.0	109.4	109.4	0.0
Water & Waste Disposal Loans	<700.0>	<750.0>	<375.0>	<600.0>	<270.0>	<340.0>	<325.4>	<325.4>	0.0
Community Facility Loans	<240.0>	<260.0>	<126.2>	<130.0>	<130.0>	<115.0>	<95.7>	<95.7>	0.0
Business & Industry Grants	10.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business & Industry Loans	<1073.8>	<741.0>	<300.0>	<300.0>	<300.0>	<61.4>	<95.7>	<95.7>	0.0
Fire Protection Grants	3.5	3.5	3.3	3.3	3.3	3.3	3.1	3.1	0.0
Planning Grants (Sec. 111)	6.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rental Housing Loans	<881.3>	<842.5>	<953.7>	<802.0>	<940.0>	<983.3>	<669.9>	<669.9>	0.0
Resource Cons. & Develop. (RC&D) Loans	<1.8>	<2.0>	0.9	1.2	4.0	0.5	1.9	1.2	0.0
SCS									
RC & D Projects	32.0	34.0	26.5	30.7	26.0	26.3	25.0	25.0	10.0
APPALACHIAN REGIONAL COMMISSION									
Total Non-Highway Programs	126.6	119.9	62.1	83.0	49.1	59.3	32.7	29.4	0.0
Research, T.A., Other	2.6	1.9	2.8	2.0	2.5	4.0	1.0	1.0	0.0
Local Development Districts	5.7	6.0	4.5	4.0	4.8	3.5	2.0	2.0	0.0
Jobs & Private Investment	n.a.	n.a.	n.a.	54.0	27.3	20.4	12.2	20.5	0.0
Distressed Counties Program	n.a.	n.a.	n.a.	15.0	17.6	17.8	3.2	5.9	0.0
Health Finish-up Program	n.a.	n.a.	n.a.	8.2	4.1	3.5	0.0	0.0	0.0
DEPARTMENT OF COMMERCE									
EDA									
Planning Grants	33.6	23.9	24.7	27.0	27.0	26.8	25.8	24.0	0.0
Public Works	260.7	257.9	129.9	229.9	170.0	156.0	107.2	122.4	0.0
Economic Adjustment Grants	95.9	12.6	33.0	33.0	33.0	33.0	24.9	24.0	0.0
Technical Assistance	30.7	26.4	7.9	7.5	8.0	8.2	7.7	7.0	0.0
Research & Evaluation	4.2	2.7	1.6	2.0	2.0	2.0	1.9	1.0	0.0
Direct Loans	116.4	54.1	0.0	17.0	18.1	0.0	0.0	0.0	0.0
Total Program Funds	531.5	377.6	197.1	316.4	258.1	226.0	166.6	180.4	0.0
Loan Guarantees	<425.0>	<425.0>	<150.0>	<20.0>	<150.0>	<150.0>	<150.0>	<150.0>	0.0
Salaries & Expenses	40.8	39.7	25.0	27.6	27.9	28.4	24.9	25.0	0.0
REGIONAL DEVELOPMENT (Title V)	109.4	47.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
ENVIRONMENTAL PROTECTION AGENCY									
Construction Grants	4900.0	5100.0	3400.0	2430.0	2435.0	2400.0	1774.2	1200.0	2000.0
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Community Services Block Grant(1980-81 CSA)	550.5	542.3	340.3	375.1	348.0	360.1	320.6	335.0	310.0
National Health Service Corp.	77.5	92.3	88.4	88.3	65.3	59.7	58.5	47.0	0.0
Rural Development Loan Fund	20.0	7.7	0.0	0.0	10.0	0.0	0.0	0.0	0.0
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
Comm. Dev. Block Grant (CDBG)(30% rural)	3862.0	3694.6	3456.0	4456.0	3468.0	3468.0	2990.0	3000.0	2509.8
Urban Dev. Action Grant (UDAG)(25% rural)	675.0	675.0	473.7	440.0	440.0	440.0	315.8	225.0	0.0
Rehabilitation Loans (312)	214.2	132.3	49.9	44.9	132.1	0.0	72.0	200.0	0.0

FEDERAL BUDGET COMPARISON, FY 1980-1988, RURAL PROGRAMS

	1980	1981	1982	1983	1984	1985	1986	1987	Proposed 1988
DEPARTMENT OF INTERIOR									
State Outdoor Rec. (LWCF) Grants	310.6	293.5	46.4	112.2	115.2	102.4	46.0	32.7	0.0
State Historic Preservation Grants	43.8	51.7	23.3	46.9	22.0	21.1	19.5	17.4	0.0
Payment in Lieu of Taxes (BLM)	100.0	100.0	91.3	96.1	105.0	102.9	99.9	105.0	105.0
DEPARTMENT OF LABOR									
JTPA State Block Grant (1980 CETA)	3342.0	n.a.	n.a	2179.3	3300.0	1886.2	1783.1	1840.0	1000.0
Summer Youth (1980 CETA)	2330.5	n.a.	n.a	824.2	824.5	824.5	635.9	750.0	0.0*
Dislocated Worker (1980 Trade Adj. Asst.)	1664.4	n.a.	n.a	110.0	262.7	235.3	95.7	200.0	980.0
Comm. Service Empl. for Older Amer.	266.9	277.1	282.0	319.5	317.3	326.0	311.9	326.0	326.0
SMALL BUSINESS ADMINISTRATION									
503 (504) Cert. Development Co. Loans	<250.0>	<100.0>	<150.0>	<250.0>	<350.0>	<450.0>	<383.0>	<373.0>	<373.0>
Small Bus. Investment Co. Loans	140.0	160.0	134.1	159.9	250.0	256.0	239.0	233.0	<247.0>
Minority Ent. SBIC Loan (Direct)	32.5	41.2	27.3	25.7	41.0	41.0	39.0	39.0	<20.0>
General Business Loans (Guaranteed)	<3000.0>	<2804.7>	<1516.5>	<2094.4>	<2600.0>	<2660.0>	<2491.0>	<2473.0>	<2494.0>
General Business Loans (Direct)	218.7	205.1	114.8	85.5	100.3	100.0	0.0	0.0	0.0
Handicapped Loans(Guaranteed)	<0.3>	<1.7>	<0.0>	<1.6>	<5.0>	<5.0>	<5.0>	<5.0>	0.0
Handicapped Loans (Direct)	19.9	25.0	13.1	14.9	20.0	24.0	14.0	15.0	0.0
Economic Opportunity Loans (Guaranteed)	<24.5>	<20.4>	<13.4>	<30.5>	<60.0>	<60.0>	<57.0>	<56.0>	0.0
Economic Opportunity Loans (Direct)	63.2	49.0	21.8	16.5	45.0	45.0	24.0	24.0	0.0
Energy Loans (Guaranteed)	<11.3>	<7.3>	<1.3>	<3.2>	<15.0>	<15.0>	<14.0>	<14.0>	0.0
Energy Loans (Direct)	14.4	6.7	1.2	0.4	3.0	0.0	0.0	0.0	0.0
Veterans Loans (Direct)	0.0	0.0	0.0	6.4	25.0	25.0	19.0	19.0	0.0
Management Assistance	22.1	19.5	29.4	33.1	39.5	39.1	19.2	19.3	9.8
Sec. 501 Program	0.0	0.0	0.0	0.0	2.0	5.0	0.0	0.0	0.0
SBDC Program	3.9	8.1	11.6	15.4	28.5	28.5	33.5	35.0	27.0
Sec. 502 Dev. Company Loans (Direct)	44.7	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TENNESSEE VALLEY AUTHORITY									
Economic & Comm. Resources	12.4	11.2	16.0	18.1	20.0	22.5	14.0	11.7	0.0
DEPARTMENT OF TRANSPORTATION									
Local Rail Service Assistance	82.6	47.4	28.0	22.0	25.2	23.2	19.3	10.0	0.0
Sec. 18 Mass Transit Grants (100 % rural)	57.1	73.2	74.3	77.2	79.2	81.5	63.0	75.0	0.0
Aircraft Purchase Loans	<650.0>	<429.0>	<201.5>	<102.5>	<8.7>	0.0	0.0	0.0	0.0
Appalachian Highway Systems	228.7	218.2	107.6	116.1	110.0	104.3	61.7	71.0	0.0
Secondary (Rural) Highway System	772.9	443	387.0	602.3	500.0	500.0	650.0	385.0	500.0
Payments to Air Carriers(Local Air Service)	95.0	114	86.1	52.1	46.3	46.3	29.0	0.0	0.0
DEPARTMENT OF TREASURY									
General Revenue Sharing	6054.9	4566.7	4566.7	4566.7	4566.7	4566.7	4100.0	0.0	0.0

NOTES: Brackets <> indicate Loan Guarantee Authority (e.g., EDA Loan Guarantees)
n.a. indicates not applicable or not available.
* Year-round AFDC-based program proposed.

Senator DASCHLE. Well, Mr. Thompson, it is 10:50, and I have promised that you would be excused by that time. We are grateful to you for your testimony.

Mr. THOMPSON. Thank you, Senator. For one who has been through several administrations and Congresses also, I appreciate the sensitivity that has been shown here this morning, and look forward to some even greater things to come from the committee. Thank you.

Senator DASCHLE. Thank you.

Senator HARKIN. Mr. Thompson, just before you leave—I am sorry I missed your testimony, but in reading your prepared statement you focused on the tax implications of what is happening in Mississippi. I hope you follow up on that point and encourage the people you talk with in other States to do that also, because we see that happening in Iowa. People leave rural areas and then the cost per unit of services for education, housing, and health care, goes up.

Mr. THOMPSON. It goes up.

Senator HARKIN. That forces young people who have to bear the brunt of those taxes to leave. Then it gets even worse, and it is just a downward spiral.

Mr. THOMPSON. That is correct.

Senator HARKIN. So we need more examples such as you were talking about.

Mr. THOMPSON. Thank you.

Senator HARKIN. Thank you.

Senator DASCHLE. Ms. Vobejda, I would like to ask you something that is related to something you said. You said that townships really have no concept of where to turn in the Federal Government. There does not seem to be an ombudsman, if you will. There is no appreciation of the course with which you obtain access to the Federal Government.

Has this always been the case, or would you say this is a recent problem?

Ms. VOBEJDA. No, I think that has always been the case. I have been a town clerk for 15 years, and I have been on the State board of directors for 9 years. But during that time, every spring we go on the course as we travel around all of Minnesota. Last spring, you know, we talked to 4,500 of the 9,000 town officers, and it has always been a problem that they are part-time people. They run their little township, but when they start looking for how do we do things, they just do not know where to go.

I think it has always been that way.

Senator DASCHLE. Are you familiar with what EDA had at one time with planning districts and things of that sort?

Ms. VOBEJDA. Yes. We have the Arrowhead Regional Development Commission. We have planning commissions in our area, but the point still remains that it is the education of the smaller towns and town officers. How do you get them to the meetings to know that there are things available? The reason that Blackberry has been so successful is the fact that when I got elected 15 years ago, I attended every cotton-picking meeting I could get to. I went there and sought out this information.

A lot of the town officers are older people. We have always done it this way for 50 years; you cannot change things. Maybe that is one of our problems, I do not know.

But as time goes on, I see younger and younger people getting interested in the townships. But how do you get them the information? I do not know. That is one of our problems, one of our big problems.

Senator DASCHLE. You really do not know? My next question was going to be what would you suggest to this committee that would give you the tool, the mechanism by which access would be more significant?

Ms. VOBEJDA. Well, there has to be technical assistance that will come out into the areas. In other words, you have to be able to employ people or set things up in areas so that they would come out and tell us what is available and how to go about getting these things, what programs are there, through news media, whatever you do. You have to notify us that these things are available, and then you have to make it so that they will investigate it and there are people to help them fill the forms out, jump through all the hoops.

One of the famous things I hear is the Government gives you a dollar but you have to spend $10 to get it. How do you get these people to know these things, that there are things available?

Senator DASCHLE. Well, I thank you. I had an idea once, and I am not sure if it is possible yet at this point, that there could be a computer base within the Government whereby townships and counties could access that data by their own computer and have it available to them. Everybody who has the same computer base ultimately could obtain information on their own. First, you would know the access; second, you would have the ability to access and to develop your own plan with which to make application for some of these assistance programs. But that may be at some point in the future.

I want to thank you immensely. I know Senator Harkin has a number of questions and perhaps even a statement. I have to get to another committee. I am going to turn the committee over to him and let him finish the hearing at this time.

Senator HARKIN [presiding]. Thank you very much, Tom.

I just have a few questions.

Mr. Everett, you had several suggestions about the Federal role; one was to continue the support of regional economic development districts in Kentucky. Karen, in your testimony you talked about that also. Are we talking about the same thing?

Mayor MERRICK. Exactly.

Judge EVERETT. Yes, sir.

Senator HARKIN. Could you elaborate on what you mean by that for me?

Judge EVERETT. The Economic Development Administration, EDA, funds in part, area development districts, that is what they are called in Kentucky; in other areas, they may refer to them as regional planning districts or whatever. These folks are able to hire staff people that I cannot afford. I tap them on a daily basis for some program, some opportunity that I need information on.

Those agencies have declined or decreased in the receipt of the funds from EDA, and that is because EDA has been cut. What we are saying is that that technical assistance has got to be built back up to a level where we can have access to those individuals. Right now they are spread so thin that they cannot get around to all of the areas. In my case, it is an eight-county area, and they cannot get around to all of the counties and cities that are requiring their help.

So we need more folks like that—circuit riders, if you want to call them that—that can come around to the city and the county and help us.

Awhile ago, in our list of things that we are missing the most, I think there was one glaring omission in that, and it is revenue sharing. Through the EDA situation with planning moneys and the use of Federal revenue sharing money, I was able to meet Federal and State mandates that were placed on me as a small unit of government. And I have to face those mandates just the same as the large areas do, but yet I do not have the tax base nor the income from other sources to do that. It has forced us to add a new source of revenue, a t-a-x, if you mind. And you know what that means to a politician.

So it is critical. I guarantee you, it is the very last thing that I would have ever done. So, you know, we are down to the wire is what it amounts to. If there had been any other way to have been able to accomplish the things that I know that we are on the brink of accomplishing, then we would not have approached it in that manner.

Senator **Harkin**. Do you have local option income taxes in Kentucky?

Judge **Everett**. Not local option, no, sir. We have a State income tax in Kentucky.

Senator **Harkin**. So you do not have any kind of local option taxes, sales taxes or anything like that?

Judge **Everett**. No, sir.

Senator **Harkin**. Your only tax is the property tax?

Judge **Everett**. We have the property tax, and then, of course, the one that we put on is a license fee. We are approaching it through the insurance companies primarily because of the tremendous increases in insurance that we have been experiencing, and that also taps almost every consumer. However, I will have to hasten to say that it has been taken to circuit court, so it remains to be seen whether it is legal.

But in Kentucky, the opportunities for local revenue are very limited, and we are having to search for new ways to do that. The local property owners are already zapped to such a degree that it just creates additional burdens, particularly with the farms and the farm situation.

Mayor **Merrick**. Senator, if I could comment, the idea of districts and regions and having circuit riders who hopefully would have access to State and Federal programs that are well funded is not a new idea, and we have been hurt by cutbacks. But I would expand on that idea to say this: If I am a community that is viable and I use that district to fund a particular project, all I have done is build the water tower or to build the sewage disposal plant or whatever; I have completed a project from a source of revenue.

I have done nothing, however, nor has that regional planning authority helped me in any way to create an ongoing leadership base in the community. So that when I leave office or when there is change in my economic development group or change at the council table, that there is a core of developed leadership in my community who also knows who they should be in contact with and what they really need to do to create a sustainable community.

So if we have those regional planning authorities, and if we, indeed, have circuit riders, I would give them another mission; that is, to help communities develop leadership, because that is, to me, the essence—that is what is taking Osceola, Iowa, and Guttenberg, Iowa, and Fairfield, Iowa, and the other communities that are rural and bringing them out of this mire, is that local leadership. That is what we need and that is where I think the Federal Government should be playing a key role.

Senator HARKIN. I wonder if you could be more specific. In your prepared statement you said that, "While Federal money for grants and loans to accomplish given tasks at the local level is, indeed, important, technical assistance and information distribution is even more so." You talked about Federal aid to development agencies to create regional development authorities. You say: "I would advocate federally sponsored and ongoing leadership training." Then you talk about technical assistance and information distribution being important.

Are you saying that it is tough to get the kind of information you need from the Federal Government?

Mayor MERRICK. What is missing, I think, is there is no sense in rural Iowa, at least in my part of rural Iowa, that there is support at the Federal program level for what we are trying to do. There is, indeed, a sense of the ghetto there, a sense of, again, abandonment. And when you call an agency, when that agency says—and I hate to take the Farmers Home Administration to task again, but I have made the trips and talked to those people. When you get the feeling—and it is not on a piece of paper, but you get the feeling that because you are small, very small, less than 5,000, that you are not cost effective. And when you start talking about being people effective, it kind of goes over the head of the person that you are trying to talk to.

Judge EVERETT. I think the point, in addition to that—and I agree with what she is saying—is, Senator, that it is not just a factsheet of what might be available in Federal Government. We have already made the point that the access and the availability of funds and assistance has declined tremendously, and we are suffering from that.

But I think even more importantly, or as much of importance, is the fact that we need someone on a regular basis, a practitioner, someone that knows, that can help us decipher out if our ideas are good or if they will work in our community. And in our specific case, it took almost a catastrophe for us to realize that we had to get up and wake up and do something for ourselves; that we could not wait for someone else, and that was a railway abandonment, the only rail line into our county seat town. And when that happened, we knew we could not lose it because it went to our river port and went to our only industry.

When you lose your only industry and you lose the future prospects that you are hanging your hat on, then you do not have anything left. So we had to dig in and we had to get some help, some technical assistance on that railway project to find out if we can afford, as a small community, to buy that rail line and operate it. And we are. We did purchase it, we rehabilitated it, and it is operating in the black.

But never in a thousand years would I have stood up as a community leader and said, "Let us do it," without knowing from someone that had been through that process and without knowing what the details were of what we were getting into. Because I had not operated a railroad before, I did not know how to operate a railroad.

Senator HARKIN. I think I have a better picture of what you are talking about.

One other thing that I see occurring in our State of Iowa, and maybe it is happening in Minnesota or Kentucky also, is that communities become very competitive with one another. Rather than cooperating, it is almost a case of one community trying to do something to beat down the other community.

I sense that this is not healthy at all. When I was in the House, I represented one of the most rural districts in America. During those years, we had RC&D programs, the EDA programs, and rural water programs; and there was a great sense of cooperation among counties and local communities. Now there seems to be this fierce competition out there.

I wonder if that is an experience that you are having down your way, too?

Judge EVERETT. Well, in my case, we have a very cooperative eight-county area in extreme western Kentucky. We do work together. There is a degree and a sense of competition that you are talking about, specifically when you get down to industrial prospects looking at the area, et cetera.

I think it becomes important in our rural areas, Senator, that we look at home-grown industry, that we look at opportunities that exist within our community. I do not think necessarily we are talking about chasing smokestacks, even though that may become a part of a total economic development program. In my case, we are on the Mississippi River. We are on the National Great River Road, and when I started talking about tourism being an industry, we are in a very scenic town. But those folks, our home town folks, did not understand what we meant.

You know, I think there are a lot of self-help things that we can do without the competition, but we just need that help, that seed money and technical assistance to get it off the ground.

You know, public investment yields private investment. And when we show public faith in an area or a situation or a project, then private investment almost always follows that. That is what we are talking about in rebuilding and in reshaping and in reinstituting the rural America.

It is a process that can begin within itself and build from without. But I do know of what you speak. It is not as tremendous a problem in our area as it might be in the others.

I think Karen addressed that last night, in a way.

Ms. **Vobejda**. Well, it is a very evident thing in our area. Recently, we had an industry that wanted to come to our area. The whole thing just blew up because of the investigation by the FBI, so we will not even talk about that. If there is an industry to come into the area, the towns and cities are fighting to get those, probably scratching, biting and the whole thing evolves around it.

One of the things that they tried to get into our area was a tire recycling plant, and it went up north, way up by Babbitt simply because the town had got into a snit, mainly between the county commissioners fighting over it. They finally went some place else.

But, yes, this is a real thing. It very definitely is. There should be more cooperation. How to get that is another question. It is dealing with people and personalities at times, too. So I believe it is a problem.

Senator **Harkin**. We have a bill that we have just passed in the Education Committee, the Star Schools Program, which sets up systems for underserved schools in both urban and rural areas so that they can provide the best educational service possible through the use of satellite technology.

For example, the cost of a satellite dish, the receiver, the up-link, the down-link, and all the technical stuff that goes with it can be quite an investment for a small school. But if the Federal Government can help with that investment, then even small school systems can offer courses in physics and chemistry and math. And you have the best because you can converse back and forth through that system.

I am wondering if such a thing like that might not also be useful in providing information services for small towns and communities; perhaps a Federal grant program to certain designated rural communities that could demonstrate the need and usefulness of such a system.

I am just wondering if there might not be something along that line that we might get involved in.

Mayor **Merrick**. I think that historically, you know and I know that time and distance have always been the enemies of rural America, and those telecommunications and state of the art technologies now annihilate those enemies. So what you are talking about, that kind of an idea, could certainly provide the kind of technical assistance and information that could assist communities at the local level.

Again, it does not address leadership development.

Senator **Harkin**. That is right. Not at all.

Mayor **Merrick**. No.

Senator **Harkin**. I will have to leave. Anything else, Karen?

Mayor **Merrick**. I just have one thing to say, and that is this: I think that we have in rural America tremendous liability, and it is a nostalgic view of us that is held by the Nation at large; that somehow or another, when people talk about rural America, they think of the Thomas Jefferson ideal of agrarian communities, self-supporting and self-sustaining; and that until we change that mindset, I think we are going to continue to see programs that are designed for urban areas kind of foisted upon us because no one really thinks that rural areas need much assistance because they have this kind of warm, fuzzy feeling about what rural America is.

Rural America is simply Americans trying to live in smaller places, but they are still American communities.

Senator **Harkin**. But I guess a rejoinder from the economic determinists would say, but is it efficient?

Mayor **Merrick**. Cost efficient.

Senator **Harkin**. Oh, it is not cost efficient.

Mayor **Merrick**. It is people efficient.

Senator **Harkin**. But that is not a factor to be considered, I guess.

Mayor **Merrick**. Not by this administration.

Senator **Harkin**. Not under these programs. We always think of economic capital; we forget about the use of human capital.

Mayor **Merrick**. Correct.

Senator **Harkin**. The effective use of human capital.

Mayor **Merrick**. Our future, if you really would think, if we had a visionary in a position of power, that visionary would see the changes in the American economy based in rural America, because the ability of laborers and management to be their most productive would be in those kinds of settings where the pace is a little slower.

And, again, with time and distance no longer being our enemies, there is no reason why the future of this Nation should not be rural based.

Judge **Everett**. I think one point that I would want to hasten to make, not to take issue with what you are saying on the efficiency, but I think you are the one that mentioned the honesty factor, the honest day's pay for an honest day's work. That certainly is an element that still exists, and we have just enticed Excel Industries, which is one of the fifth largest automotive parts suppliers in the country, to invest in an existing industry in our county. And they have been involved there now for several months. The president of their company was in the county last week, and one of the points that he made was that our plant is becoming their most efficient operation, because the people believe in that integrity and that honesty of giving him something for what he's asking for. And I think we miss out on that a lot of times.

Senator **Harkin**. That is true.

Ms. **Vobejda**. Yes, again, you know, in rural America our people are our biggest asset. We have a lot of good people out there that are willing to work, and hard, for what they receive. Just give them a chance.

I just really feel for rural America. I was born and raised there. My roots are there, and it is the thing that there are a lot of good people out there. It is well worth the hours that I put in looking for things for them to do and to improve the community and the quality of life for those people. Our people are the biggest asset.

Senator **Harkin**. Thank you all very much. We appreciate it.

Judge **Everett**. Senator, we would like to continue the dialog beyond today's hearing. We feel like that your committee is embarking on a very important situation here, probably opening the door for some new things, and we would like to be able to continue the dialog.

Senator **Harkin**. I can assure you we will.

Mayor **Merrick**. Thank you.

Senator **Harkin**. Thank you very much.

Ms. **Vobejda**. Thank you.

Senator **Harkin**. The committee will stand adjourned.

[Whereupon, at 11:20 a.m., the committee recessed to reconvene at 9:25 a.m., Tuesday, May 5, 1987, in room SR-332, Russell Senate Office Building.]

RURAL AREA REVITALIZATION

Rural America: Jobs and Economic Revitalization

TUESDAY, MAY 5, 1987

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 9:25 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Harkin, Conrad, Fowler, Helms, and Bond.

The CHAIRMAN. The committee will come to order.

Governor, I don't know how you did it, but you have really brought them in. As your good friend and mine, Senator Conrad, said to me as we came down the hall, "You know, Pat, I told you if you really want to get some publicity for our hearings just invite Governor Sinner and we will pack the building." And he was right. They've got the satellite trucks double-parked outside just for us.

Governor SINNER. Well, Senator, I don't know what brought it about and I don't know why I forgot it.

The CHAIRMAN. Very good.

Senator HARKIN. Mr. Chairman, I apologize for being a little late and I see all the press out there lined up, as you say, for Governor Sinner. I just wanted to welcome him to the committee, a dear long-time friend, a great Governor of the State of North Dakota and, indeed, a great leader for the entire Midwest.

George, I have to apologize. Senator Byrd has called a meeting of the Steering Committee at 9:30. So, I'll have to leave very shortly to go to that, and I just wanted you to know that the only person that could force me away from listening to your testimony would be the Leader, Senator Byrd. So, I do have to go to that meeting.

Governor SINNER. I respect your judgment, Senator.

The CHAIRMAN. When you get there, you might mention to the Leader that I would prefer that he not do anything on agriculture until I get there.

Agriculture may be one of the issues on the agenda and our hearing, you can tell him, should be done by 11 o'clock and I will get over there as quick as I can.

Senator HARKIN. If it goes to 11 o'clock I can tell you I am not going to be here.

STATEMENT OF HON. GEORGE A. SINNER, GOVERNOR, STATE OF NORTH DAKOTA

Governor **Sinner**. Quite clearly, the major thrust of the future in the production-oriented States will remain production and a production economy.[1]

There are few people in most of these States, but they are rich in natural resources, and the economies of most of middle America are largely production oriented, and to think that, to overlook that fact, is to overlook the main area of economic recovery in the rural and Plains States.

So, the level playing field economically is the critical need. Certainly, beauty is in the eye of the beholder, but to the production sector of America from farming to forestry, mining and manufacturing and energy the exchange rate issue has been overwhelming and remains overwhelming. All of the other barriers of global markets that have occurred in the past 6 or 7 years to the production economy have weighed heavily on the whole economy of people individually and the overall economy of the States.

An article a few weeks back in one of the economic journals pointed out that the burgeoning economy in the Coastal States was, in fact, in large part due to the large numbers of imports. The unloading, the warehousing, the assembling, the marketing, the distribution of the huge volume of imports has created a tremendous bulge in Coastal economies and has removed from the economy of this country in the central sector of this country those very jobs that are now being replaced by imports in not just manufacturing, but in the handling of those imports as they arrive.

So, finally, it seems to me that the United States must understand that unless it is aware of its obligation to protect its own free enterprise system the other governments of the world will surely destroy it.

We face the anomaly of a Canadian central marketing for its grain that has traditionally marketed its grain at the U.S. price minus a dime; that owns all of the electrical power that it markets into American markets; that employs the same type of marketing in electricity as it has in agricultural products. And so we face, as well, the kinds of markets in which 80 percent of the world's oil is marketed by governments.

And unless we overcome the naivete that there is something like free trade out there, the U.S. free enterprise system will be destroyed.

The Shearson-Lehman Report of a couple of weeks ago points out what many of us tend to forget about, the exchange rate issue. In one of the lead paragraphs in their issue of April 15, they say:

> Despite the large declines in the dollar since February 1985 and the Plaza Agreement of September 1985, the dollar really has only fallen significantly against the currencies of five countries, Japan, West Germany, the U.K., France and Italy from 20 to 40 percent since the Plaza Agreement. In 1986, these countries accounted for about 53 percent of the U.S. merchandise trade deficit. The dollar is essentially unchanged against the Hong Kong dollar, is down only 5 percent against the Korean Won, down about 15.3 percent against the new Taiwan dollar, down only 5.2 percent

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[1] See p. 128 for the prepared statement of Governor Sinner.

against the Canadian dollar and actually is up against the currencies of the Latin American countries.

With only around one-half of the merchandise trade deficit subject to large swings in the dollar, it is easy to see why the trade deficit has not moved much. This is particularly true for ag products, because in the countries with which we largely compete we have not seen an improvement in the exchange rate relationship.

Add to this the cost that American society has placed upon its production sector. Just look at the costs—Workmen's Comp, Unemployment Insurance, Social Security, Income Withholding, Environmental Protection Agency laws, OSHA, Equal Opportunity, Health Insurance, Retirement Benefits, the largest liability costs in the history of the world, and then add to that the exchange rate differential of up to 30 to 35 percent.

No one quarrels with those programs. Where the quarrel is is with the failure of a government not only to protect the production sector that is burdened with these costs, actually, to go beyond that and berate American producers for being unable to compete against countries and producers from other countries that share few, if any, of these costs.

Mr. Chairman, it is in my judgment that it begs the question to say that American producers cannot compete with other countries of the world. Quite clearly we can. We are almost able to do it even with this unlevel playing field.

Mr. Chairman, my point in this part of my remarks is to tell you what you and I have talked about before, that fundamentally the American production sector, the farm States, will remain farm States, and they will flourish only if we face the reality of a naivete in some circles about something—some mythical euphemism called "free trade."

I want to mention a couple of specifics. Debt restructuring is to me the only sensible way to deal with the debt problems in rural America. Everything else is nonsense. It makes no sense—no one gains by foreclosure and liquidations that have been allowed to go on by farm credit agencies.

Farm Credit Services has made some improvement in their policies but they are faced by a real shortage of funds. The same is true with FmHA. They are faced with a shortage of funds. They have shown little progress, it seems to me, in facing the obvious need for debt restructuring. To let the liquidation syndrome play out makes no sense to anyone. No one gains. The equity is gone. The only logical thing to do is restructure debts.

My point here is that Congress must make sure that both FmHA and Farm Credit Services have adequate money so that they are able to do what they must do and what rural America really needs.

Third is a new area—a new suggestion for you. Many of the rural States and most of the production States have faced a harsh reality with their Unemployment Insurance Funds. And they are caught in a real catch-22. If they don't keep their benefits up to a reasonable level, their employees and their workers leave. There is no alternative because they cannot feed their children.

Our fund in North Dakota has been in bad shape—very bad shape for 6 years. We have faced an agonizing, difficult discussion of this issue for two sessions in our legislature. You are faced with either raising the rates to a point that you cannot attract new businesses, or you can't pay the benefits that are needed, or your fund is in jeopardy.

I think it's time that we realize that most unemployment in America is caused by macroeconomic phenomena, not by the mistakes of local businesses or local employees or State governments.

The Federal support for unemployment funds is in the form of loans that are available for a short period of time without interest. After the first of October of each year, you must begin—you either pay the loan back or you begin paying a high interest rate.

In my judgment one of the best things the Federal Government can do is to initiate a program to grant grants in aid to the States in the most trouble with their fund. It is an incredibly difficult proposition because, if you raise the taxes on employers to the point that they can cover the fund, you can't attract new businesses and, in fact, you drive out your existing businesses. And it is an area that badly needs addressing by the Federal Congress.

Fourth, the retraining is very critical. The harshness of the displacement of farmers is unparalleled in any other part of the economy. These are people who have lived for generations on one farm. They are not familiar with job-seeking. They are, in most cases, very talented people, very literate, well-educated, but they are not familiar with the phenomenon of going out and seeking jobs.

And so the displacement of farmers is unusually harsh and has unusually difficult social repercussions. So, quite clearly, retraining for other jobs and just training in how to find other jobs and how to relocate is essential in the farm communities where displacement is so prevalent today.

The JTPA Program I think is a good one. I think the Job Corps is a good one. I am excited about the National Governors, Association Welfare Reform Program. We all, I think, are anxious to see more vocational training for our people, and the Economic Development Administration funding is also important.

In this area the more categoric the grants can be the better it will be for State governments and the better it will be for our people. And the States' needs and capabilities are different and we need less program specific regulation and more categoric grants in aid.

I think to sum up, Mr. Chairman, straightening out the national economy, reducing that exchange rate problem is the number one issue. The rural production oriented States are going to stay that way, by and large. They are going to make some progress toward broadening their economy, and we are doing everything we can to expand ours, but, generally speaking, I think we have to face the reality that the farm States are going to remain essentially production States.

The world food reserve phenomenon is going to change with the weather. It has risen rather high right now. We are running somewhere around 24 to 25 percent in world food reserves, which is near the all-time high, but in more ways than I have time to go into that is a weather-related phenomenon and it moves up and down. And the day will come when the world will be hungry again, and we will look to the farm States for all the blessings they have provided for this society with a great deal of appreciation, but in the interim we must do everything we can to make sure that our people—and not just the farm sector but all the other production sectors—have a fair break in world trade.

I appreciate your interest and the interest of your committee. We also appreciate Senator Conrad's expertise. Those of us that have worked with him know that he's a brilliant public servant who is dedicated to the good of all the people. He has demonstrated that for years in North Dakota, and we applaud his role here.

We will do everything we can to work with you in establishing programs that will help rural America, but it seems to me that the bottom line is that we must get the overall economic climate in a shape that the production sector of America can compete in what is now clearly a global market.

Thank you very much, Mr. Chairman.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Thank you very much, Governor. I appreciate the kind comments you made about Senator Conrad and without embarrassing him further I, too, was delighted when I found that he wanted to be on this committee, because he has brought a great deal of expertise to it.[1]

It was his invitation to me and the committee that brought us out to North Dakota earlier this year. In fact, I think it was the first full Agriculture Committee hearing, certainly in my lifetime, that's been held in North Dakota. I found that a very, very moving experience.

I know how much my wife and I appreciated the hospitality you and your wife showed us when we were there. The evening we spent at your home and the discussion we had there on all the issues from a farmer's home to the problems of a rural farm economy was so valuable.

And I said then to some that going from the Governor's home to a farm family's home for the night, getting up with them in the morning as they were out doing the farm chores, and talking with them was one of the most moving experiences I have had in the 13 years that I have been here in the Senate.

And it's one of the reasons we are having these hearings, because rural America is hurting—all of rural America—whether it's within the farm belt or without. Throughout the eighties, the changing global marketplace closed the doors on economic growth across rural America. Small manufacturing plants succumbed to foreign competition. Farms and farmers disappeared. Oil wells stopped pumping and coal mines closed.

Over the last 7 years, rural America has suffered a tragic body blow from which parts of it are just never going to recover. Jobs are being lost and unemployment is rising. In just 2 years, 1981 to 1983, we lost one-half million jobs in rural America. As those jobs go, think of all the other jobs they put in jeopardy.

Because the traditional employers of rural Americans may never regain their past strength, our hope for the future has to depend on expanding existing businesses and creating some new ones. And here, too, some of the experts that we've had come before this committee have provided some pretty gloomy numbers—for every seven new jobs that this country creates in the city there will be only one in the rural area—a 7 to 1 ratio.

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[1] See p. 120 for the prepared statement of Chairman Leahy.

Now, I come from one of the most rural States in America. I am a product of rural America, and I find statistics like that very, very frightening as I see what it does to the heritage that I very proudly carry.

No one understands the importance of rural values more than somebody from a State like mine. And my own State of Vermont is fighting hard for its future. Our towns have brought in new businesses, our farmers have diversified, and we did join the high technology revolution, but Vermont, too, is suffering and when I go home I worry about our future.

Last year, for example, in our little State of one-half million people, Vermont had 300 more dairy farms than it does today. Our maple syrup industry just had another terrible year—our second one in a row. Half of Vermont's roads need repair and many of our towns rely on sewer systems built in the last century. We have 1,100 bridges throughout the little State of Vermont that need repair.

Just last week I was in Vermont and I was talking to my fellow Vermonters about the need for renewed national commitment to rural America—a national commitment, not just State by State but a national one. I shared with them my ideas for bipartisan legislation to help the rural economy, the Six Point Plan to revitalize rural America, and I stressed its bipartisan nature because this is something we are all in together.

The subject of today's hearing, as you have already alluded to, job growth and business generation, is a major focus of that legislation, because we have to help rural America develop new jobs. Home town jobs have got to be harvested, existing businesses expanded, and new industries started.

There is no reason why rural America should not have a piece of the action in computers, biotechnology, and financial services. There is no reason why there has to be a 7 to 1 ratio in the creation of jobs because urban America does not hold a 7 to 1 ratio over rural America.

I do not want to see urban America develop because of the hardships of rural America. I do not want to see us develop two societies at opposition and war with each other, one becoming the "haves" and the other very much the "have nots."

If we go back through history and look at why we founded this country, why we set up the form of government we did, why we had the Congress divide the way it does, we see it was all done to make sure and to ensure that there would not be this radical dichotomy between rural and urban America. And all of us here have a responsibility, whether our ties are to rural or urban America, to make sure that that dichotomy doesn't exist.

The Federal Government has to lend a hand. They are in the best position to do it. Working capital has to be brought into rural areas. Even the best ideas need startup funds. Too often as some of these ideas come out of rural America they fall on deaf ears when they come into urban America, especially Washington, DC.

I think rural workers have to be trained for new jobs. There are some jobs that are going to leave rural America that are never going to come back. No matter how much nostalgia there might be for it, we have to accept that. So, let's train rural workers for new jobs that can be developed because, after all, the productivity and dedication of the rural workforce is unparalleled. All of us know that. When the skills of rural residents are no longer marketable, then let's teach them some new skills. The infrastructure of rural America has to be rebuilt.

New businesses are not going to come to places that have old bridges, or old roads, or decaying sewer systems. They've got too many choices, too many other places they can go.

Finally, as we go about the job of rebuilding rural America, let's not lose sight of what makes living there so special. We have to protect the rural environment and guarantee its quality of life.

Yesterday morning, before I came back to Washington, I went out and walked for about an hour through the fields of my own farm in Vermont. I looked out across there and looked at the beautiful scenery, clean air, waved goodbye to my son as he took off for high school, and went back and picked up my suitcase and left. And halfway out, I thought, gee, did I lock the door or not, and then realized it didn't make a heck of a lot of difference out there. And these are special qualities. He's going to an excellent school.

I flew out and enjoyed the weather—beautiful. I did call this morning and my wife told me it was snowing, and it's not always going to be perfect, but these are special qualities.

I also think of that 16-year-old going off to high school, and I want to make sure that he has the choice when he grows up and looks for a place to work, whether he wants to work there in rural America or go to urban America. I want him to make the choice and not have a choice forced up on him. That's really what we have to do.

I've preached long enough and I really want to yield to Senator Conrad, who is fortunate to be from the same State you are, Governor.

Senator CONRAD. Thank you, Mr. Chairman.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

I want to give a special welcome to a special friend. Governor Sinner and his family have been close friends of my family all of my growing up. When I first ran for office, George Sinner was my campaign chairman. It was a time in his life when he was briefly out of public service, but George Sinner is someone to whom the State of North Dakota has turned repeatedly for leadership in the most difficult of times.

He has served in the North Dakota State Senate. He's been a Constitutional Convention Delegate.

When things were really difficult in North Dakota, in 1983, George Sinner ran for the North Dakota House of Representatives.

I was one of the people that urged him to do so. It was already after the endorsing period, and George was good enough to run because we desperately needed his leadership in the North Dakota Legislature. He became Chairman of the House Finance and Tax Committee at one of the most difficult junctures in our State history, probably only exceeded in difficulty by the period he served as Governor, because North Dakota is an agriculture and an energy

State, and you can't find two sectors of the economy more hard hit by the macroeconomic policy to which he referred than agriculture and energy.

Now he has just steered the State, Chairman Leahy, through a budget problem even more severe than what we face here in Washington, if that's possible, in an extraordinarily difficult situation brought on by the collapse of the agriculture and energy sectors.

I must say, as a former tax commissioner who has had a great deal of involvement in the fiscal affairs of the State of North Dakota, I want to publicly applaud the leadership that George Sinner provided in the State of North Dakota.

People of North Dakota actually, in a vote, decided to increase their income tax rates over 30 percent in order to deal with part of the problem being faced by the State of North Dakota.

That's an extraordinary thing for a State to do. It was because of the Governor's leadership that the State of North Dakota bit that bullet, made spending cuts, made other revenue adjustments, made the tough choices that I hope that we could make here in Washington to bring a balance to the budget.

So, over and over in our history, George Sinner has been somebody the State of North Dakota turned to because he's an exceptional leader. He is willing to make the tough decisions, to take those decisions to the people of our State and to win their approval. He has an unusual personality of being able to deal with the extraordinary sets of pressures and conflicts that a leader faces in a time of trouble.

So, I want to publicly thank Governor Sinner for the extraordinary leadership you have given our State.

I also want to recognize his counsel who is with him, Dick Gross, sitting behind the Governor.

Dick was my chief counsel when I was Tax Commissioner of the State of North Dakota. When Governor Sinner was elected, he moved over to the Governor's office, and he is somebody that's provided an extraordinary degree of public commitment and public service. So, we're awfully glad to have you here today with us.

I would like, Governor, if you wouldn't mind, just to get your characterization of the economic climate in North Dakota now.

I have just come back during the spring work break, as you know. I was out and had about 40 meetings in 30 towns. I was struck, once again, by how very, very serious the economic situation is in North Dakota.

I would like to get your characterization of where things are. Have we bottomed out in agriculture and energy? What's the direction? Start there with your notion of where we are today.

Governor SINNER. Thanks, Senator, for your kind remarks. I apologize to both of you for preempting the lead statement here. I didn't mean to do that.

The CHAIRMAN. No. In fact, your statement was a lot better and it's perfectly OK.

Governor SINNER. Apart from the heavy surpluses that the Nation carries, I think we are still carrying something over 60 percent of the world's food reserves. Apart from that, I think we're seeing some improvement.

Quite clearly, the exchange rate is so significant that even the improvement against the five major currencies that I mentioned, is having some effect plus I think the final awareness here in town that we have not done well. We've done absolutely awful in world trade circles. That recent sale to Russia was certainly significant. I think there is a new awareness that we've got to quit being so naive and quit pretending that there is something like free trade out there.

Clayton Yeutter I think has done a good job in dealing very directly with some of the tariff and nontariff barriers that other countries have.

I still think that the country and probably the world relies way too much on some sort of mystical formula that's supposed to control exchange rates. No one can convince me that Canada, for example, is not skewing its currencies, to say nothing of Korea, Taiwan, and Australia, and some of the other countries of the world. And we simply must devise a system to deal with that exchange rate phenomenon. Otherwise we are going to continue to get jacked around.

For my money, we should go to some sort of a moving base and protective tariffs against countries that manipulate their currencies to their own advantage and to our disadvantage, using the revenue to subsidize our exports.

You know, we simply cannot sit here and let the other countries of the world skew their currencies and take advantage of us.

But, overall, we are seeing a slight drop in unemployment, partly because people have left, but partly because things are starting to level out a little bit.

In the energy field in our State I am very worried about the Canadian pressure. There are heavy intrusions of Canadian power, that we think are heavily subsidized, marketed in our markets in ways that are devious and defy any normal American understanding of free trade. So, that problem is still plaguing us. You all read the predictions about when we are going to see a shortage in gas and a return of bull markets in the petroleum and gas field, and I think that applies as well to the electrical field.

I don't think that there is any alternative to the oil dumping of the OPEC countries other than a tariff. Whether you go with a fixed tariff, which the Harvard Study suggested, or a variable or a mix of the two, is problematic. My own instincts are to probably to go with a mix. But that dumping is affecting the entire energy sector of the United States, whether it be nuclear, coal-fired, hydro—whatever it is—along with oil and gas. The whole American energy field is being hurt and eventually Americans are going to pay dearly for this lapse in protecting national security.

However, rig counts are up some in the oil field. We have struggled to reduce and give some tax incentives to both those fields, as well as to our agriculture sector. The States, generally, are doing everything they know how to do to encourage their production sector, but given the international economics, it's pretty tough and will be until they get the dollar down more uniformly.

Senator **Conrad**. That's something, it seems to me, too little understood. As you know, I'm in very strong agreement with your views on the question of the currency differences and what that does to us.

Obviously, if there's a currency difference of 30 percent or 35 percent with Canada, that's an enormous advantage they have in trade and, when you start talking about these things in Washington, what you hear about is what was on the front page of the Washington Post the day before. Of course, what's on the front page of the Washington Post is the difference between our currency and the Japanese currency where there has been a dramatic reduction, but there is very little reporting of the fact that the currency realignments has not occurred with the countries with whom we compete for agricultural markets.

I was very pleased that you made that point. I think that's a point we need to make over and over and over to people that the dollar has not had much adjustment against those currencies.

If you were in our position of sitting in the Senate evaluating the budget, what would be the two or three things that you would be eager to see us do to help rural America, the agriculture sector, the energy sector, the productive sector of the country? What are the things that you would want us to do to try to deal with this currency adjustment problem?

Governor **Sinner**. Well, Senator, I was asked that question by a media person before I left and he put it a little more bluntly. He said, "Would you recommend a tax increase?" And I said, "Absolutely, if you can't cut the budget you must raise the taxes." We cannot go on pretending that no one is going to pay, because our children are going to pay.

The consumers in America have had a heyday but their children and their children's children are going to pay. And however unpopular it is to suggest raising taxes, it is absolutely nonsense that we can go on with this sort of deficit spending and have this economy recover, because it won't.

As you have pointed out, I have been through that on the State level. I think I gave 35 talks in something like 10 days or 2 weeks to try and explain to our people that there isn't any free lunch. Somebody has to pay. If you are going to have services, and you're going to have an infrastructure, and you're to have education, and you're going to take care of your elderly, you don't do it with wishes. The United States Government has to understand that. We cannot go on with this level of borrowing.

Prior to 1980, the United States never once had a deficit in excess of 2 percent of the GNP. We have been running for 6 years now with a deficit approaching 6 percent—somewhere between 4 to 6, but more often closer to 6 percent of the deficit than 4, and no economy can stand that.

Obviously, you have the appreciation of equity values, or we had that, but even that is in a negative posture right now, and the deficit just is overwhelming. And the level of borrowing is going—it's going to create all kinds of havoc, and our kids are going to have to pay for it.

Senator **Conrad**. Thank you for that. I am in agreement with you. I think we have to, at the Federal level, cut spending, and I think we've got to raise revenue, and we've got to look for some new ways to do that.

I'm glad to tell you that the chairman of the Budget Committee has accepted an amendment which will allow us to start a Federal Fair-Share Program like the Fair-Share Program that we had in North Dakota.

Let's direct our attention, if you will, for a minute, specifically to the agriculture. What would you like to see us do that would be of most assistance with respect to the agriculture bill?

Governor SINNER. Senator, probably the area in which I feel the most comfortable discussing is the credit side of that. I don't think you can let these, either Farmers Home or the Farm Credit Services, get into any deeper trouble.

Our work with Farm Credit Services has been extensive. We helped them put together a State-supported program for restructuring. The regional program has been structured after and copied on that program. It's a good program. There are many, many variations on the theme out in our part of the country, but their ability to continue to restructure rests with their assurance that there's enough money here.

And whatever else is done on the near-term, if you don't help these credit agencies restructure, it means ridiculous turmoil. They are pushing good farmers off the land. They're taking title to property that they don't—it only costs them money to take the title, because they cannot possibly recover all the costs that go with the foreclosure, the resale, and all the encumbrances that go with it. And restructuring is the only logical position for these credit agencies, whether they be commercial or public.

In my judgment, on the near-term, the best thing that you can do for rural areas is to make sure that these credit agencies have sufficient, reliable moneys that they can go ahead and do the restructuring that they need to do.

I have frankly stayed out of the commodity programs. At one time, I did a lot of lobbying down here on farm programs and was deeply involved, but I know, because of that experience, how complex those commodity sections are. And I made a decision I wasn't going to try to track them all; I haven't got time.

I applaud your efforts at getting equal treatment for sunflowers along with soybeans. It's insane to think that one oil seed crop deserves some sort of treatment that others don't.

I know the problems the Department has. I met with them yesterday and talked about this, and I do understand the complexity of it. But if they are going to have a marketing loan for soybeans, sheer equity demands that they also have one for sunflowers, and I applaud your efforts for that because you're absolutely right.

Senator CONRAD. I appreciate that.

Mr. Chairman, I'll turn the question over.

The CHAIRMAN. I will also put in the record following Governor Sinner's prepared statement the prepared statement of Robert Reich, from Harvard University. His statement is entitled, "Toward a New Rural Economy." [1]

I mentioned how delighted I was to have Senator Conrad added to the committee this year. I am also delighted that Senator Bond, the former Governor of Missouri, requested assignment here and has added himself to the committee, again, a very valuable addition to the committee.

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[1] See p. 144 for the prepared statement of Mr. Reich.

Senator, I yield to you.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you very much, Mr. Chairman.

Governor, I welcome you, and I want to commend the chairman and the other members of the committee for having this very important hearing on the problems of rural America.

I was delighted to see, as I turned the corner today, that there was such press coverage coming out for the hearing. When I got here, I found that they had stopped short. I think if they had a little broader view——

The CHAIRMAN. If only they knew we were down here.

Senator BOND [continuing]. They would appreciate the fact that what we are talking about here today directly affects so many people in our States and throughout America.

Back in 1983, as Governor, I set up a task force on rural development to look at some of the problems that rural Missouri was facing at the time with jobs moving out, with agri-industry in difficult straits.

We came to a number of shocking conclusions. We enlisted the best minds in agricultural organizations, universities, the extension service, and from the private sector—community leaders, as well.

Clearly we were facing a major change in the job opportunities in what we call "out-state Missouri," the area in which I grew up. That area is changing, and it's changed in part because, as you indicated, of some very unwise Federal programs. And the Federal Government has seemed to, I'm sure unintentionally, put more burden on rural America than it ever meant to.

Many of the policies we have followed in the past have led to a loss of overseas markets. We've taken shortsighted steps in driving up the deficit that have raised interest rates and made it difficult for farmers who must borrow funds to produce crops.

There have been many problems that have come about in rural America, and I am delighted to welcome a representative of the National Governors Association, my former colleagues who have to deal with these problems on a day-to-day basis.

I would like to see the day when we have an even closer working relationship. I recall the number of times I represented the NGA at congressional hearings. I appreciate the kind of hearing that was given, but I can assure you, sitting on this side of the table, it is far more important for us now to hear what you, who are on the front lines in dealing with these problems, find to be the real needs and to hear your suggestion of solutions.

I believe very strongly that the problems of rural America are going to be changed in many ways, and it is going to be changed for the better only if there is a working cooperation between State government, local government, the communities involved and, at least, no harmful input from the Federal Government.

I am not yet so optimistic that I think that the Federal Government is going to do a lot to help other than doing some very specific things, as you suggested, in assisting the Farm Credit System. This committee is going to be coming out with a measure which we fervently hope will protect the borrowers in the Farm Credit System now, and which will make it possible for the strong borrowers to stay in the system and to keep it healthy.

The commodity programs have resulted in significant increases of revenue to rural areas. I believe that we need to pursue Federal programs that will ensure that the dollars are available and that we don't forfeit our export markets. This would not only hurt farmers but would hurt the many jobs in the rural economy which depend upon, supply, and support farmers.

One of the things that we undertook in Missouri was to set up a system of enterprise zones. We set them up in both urban and rural areas, and we found that some of the rural enterprise zones have been extremely successful in attracting new, small businesses to the areas of high unemployment and low wages and improving the economic base.

I wondered, have you considered the enterprise zone concept in your State, and do you have any thoughts about it?

Governor SINNER. We have done some research, and I think that we're probably not as well placed as Missouri for that kind of development.

Our major effort in the development of industry has been in the agriculture processing area. I think we're probably on the threshold of a good deal of interest on the part of both Japan and Taiwan, in particular, because of the tremendous amount of U.S. dollars that those two countries hold. We sell them a great deal of raw product and with the falling dollar against the yen and the excessive amounts of dollars that Taiwan holds, it's our belief that we are a ready market for investment by entrepreneurs in both of those countries for food processing in our State.

The Burlington-Northern goes through our State and carries about two to three trainloads of containers of Oriental products coming into the U.S. every day. The amazing thing is that 80 percent of those containers go back to the Orient empty, which is an incredible figure, but it is a true figure.

So I think, given the fact that people that own dollars with falling value are getting very, very nervous and are looking for homes for them. There has probably never been a better time for the United States, and particularly rural States that are already selling products to Japan and Taiwan and Korea, that there has never been a better time for us to seek a joint-venture arrangement in a prestructured way probably with Oriental investors.

The enterprise zone has not specifically been an active area so far in North Dakota and one we need to look at.

Senator BOND. One of the things that we found in Missouri was that we had been, as you have been, shipping raw products overseas. On our agricultural trade missions, we found that Taiwan was importing hog breeding stock from Missouri and bringing in corn and selling pork chops throughout the Southeast. We attempted to find ways to improve the export of value-added products. This in part was a State initiative, and in part depends upon the ability of the Federal Government to assist. We have proposed some measures to help in supporting value-added exports.

Do you have any thoughts from your experience in North Dakota how the Federal Government or the FAS might assist more in that undertaking?

Governor SINNER. I frankly think that the best things that can be done are probably being undertaken by the administration really right now in trying to put pressure on Japan to open up its markets.

The livestock industry is faring better and part of it, I think, is due to the fact that they are making a few inroads into those markets and making them take down some of the barriers.

I honestly can't tell you whether or not they have dealt specifically with the ag products on trade to the Orient. Certainly, we've actually had expanding markets in the last 6 years of spring wheat into Japan. We have had very, very little entree into Japan of processed foods, and that has to be the area in which we put, because we're not going to change our basic economy a good deal in the rural States. The fact that we do so little processing of them, as you have pointed out, is the major area, and we've got to break down the barriers because they've had them up.

Senator BOND. One of the things that I am concerned about as I look at proposals for Federal Government action, is something that may exacerbate the problem that you cite on page 4 of your prepared statement. You are talking about the movement of labor intensive production processes abroad.

Do you have any feel what would happen in North Dakota to the ability to attract industry, for example, if the minimum wage were raised substantially?

Governor SINNER. I have never thought the minimum wage, as we know it in this country, has been a significant deterrent to economic development. Quite frankly, minimum wages, by and large, are not significant in my view, and I think in the view of most people do not impede economic development. So, I don't see any negative, or significant negative impacts.

We were faced with the possibility of getting up over 10 or 10½ percent in our unemployment insurance prior to the session and went through an agonizing discussion. And you weren't here, I don't think, when I commented that, in my judgment, one of the areas which the Federal Government should take a look at helping the States that are hurt is to provide grants to bolster umemployment insurance, because the States get caught in an absolute catch-22. If they raise the rates to get their funds out of trouble, they discourage economic development.

They really do make it difficult for employers to come in there and do business and, yet, the Federal Government has not helped in that. In my judgment, they should set up a program that helps the lower 15 to 20 States on maybe a graduated basis, depending on the level of their damage, because most of the causes of unemployment, as I pointed out, are not local; they are macroeconomic. And it is a very, very difficult—it is an essential program to a sophisticated society and, yet, the more difficult the structure is in the State the more difficult situation those funds find themselves in, and you cannot get out without some real agony.

I think it's a critical area that the Federal Government can address. It's a specific I know, but it is a very important program. It could grant significant help.

I have talked to Secretary Brock briefly about it, but it was a new thought to him, and he did not have a good reaction at that time. But it's those kinds of things that really can drag down a State's reputation and can hurt on a broader sense.

Senator **Bond**. We experienced in Missouri that same kind of problem with unemployment compensation, and I can sympathize with you. Biting the bullet was not easy and it took us a long time to get out.

I appreciate your questions, and I turn it back, Mr. Chairman, to you. Thank you.

The **Chairman**. Thank you, Senator Bond.

Governor Sinner has to go, he has an appointment very soon, but perhaps we could take the time for one question from Senator Fowler.

Senator **Fowler**. No, I'm fine.

The **Chairman**. Thank you very, very much for coming. We appreciate your wisdom and counsel and look forward to working with you in the days ahead.

Governor **Sinner**. Thank you.

Senator **Bond**. If I may, Mr. Chairman—and my apologies, sir—I have been asked if I could get unanimous consent to have a statement and questions entered into the record on behalf of Senator Helms who is unable to join us because of other commitments.[1]

The **Chairman**. Without objection.

Next, we will hear from Bob Bergland, the executive vice president of the National Rural Electric Cooperative Association and the former Secretary of Agriculture.

Mr. Secretary, welcome to the committee. We are pleased to have you with us. If you will provide us with your prepared statement, we will then take questions.

The staff recommends that we take the next three witnesses as a panel, and I think that is the way it has been arranged. So, we'll start with Secretary Bergland, but will ask Mr. Rodale and Mr. James to join him at the witness table.

And after we have had a chance to hear from Mr. Bergland, we will take the testimony of Mr. Rodale and Mr. James, and then open it up for questions.

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. **Bergland**. Thank you very much, Mr. Chairman and members of the committee.

I have a very excellent 10-page statement which I would rather not read and take 30 minutes, but it's worth reading.[2]

The **Chairman**. Without objection, it will be printed in the record.

Mr. **Bergland**. Briefly summarizing from this document.

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[1] See p. 122 for the prepared statement and questions of Senator Helms.

[2] See p. 158 for the prepared statement of Mr. Bergland.

First of all, we can't separate rural development from national development; the two go together. There is no effective way of building permanent jobs in rural places if the national economy, itself, is hurting, as is currently the case.

I completely agree with Governor Sinner's basic contention that in rural places the economy is hurting badly because of the farm crisis, and it is costing thousands of jobs.

We are 930 distribution cooperatives in 46 States, serving about 10 million families. These are all consumer-owned; 220 of these systems are now reporting declining populations.

It's been years since we've seen rural places being depopulated, but it's happening. This is entirely due to either the grain farm economy or crop farms more specifically, or energy, or a combination of these.

We completed a demographic study of about 10 million rural families served by these consumer-owned cooperatives. Of that number, 3 million families are headed by a person whose job is from a blue-collar payroll. They work in a mine, a mill, or a factory. Two million of these families are supported by what they call a "white-collar job." They are teaching school, or at a sales job, or clerking in a bank, or managing a local retail establishment. About 25 percent are retired persons, persons, who for their own reasons, choose to retire in a rural place.

These are folks who generally have moved from a city or some other community and chose to live out their golden years in the relaxed comfort of a rural community; 13 percent of the total, or 1.3 million of these families are engaged in commercial farming, either full-time or part-time.

Now, it is, of course, clear that farming is the main economic motor in about 12 States. Of the 3,000 counties in the United States, farming is the dominant industry in about 700. That means we still have more than 2,000 rural counties that don't depend on farming as their primary source of income, but it is still significant even in those places where agriculture is more of a part-time enterprise.

We would like to offer some new ideas in the question of rural development. We believe that rural communities, standing on their own, generally cannot effectively compete with larger, better-organized urban places, all other things being equal.

We know there has been a lot of attention paid to the business of trying to attract industry. In fact, our study shows that there are about 25,000 development agencies around the United States. Every little community has some kind of a Chamber of Commerce that's trying to out-bid someone else.

Our studies have shown that tax giveaways are not a good way of attracting and keeping businesses. These are artificial sweeteners. They are incredibly expensive and once the taxes are given away, the community's ability to support that industry with schools, and hospitals, and roads has been effectively destroyed. Tax giveaways are not a good way to build a sound economy in which jobs are based on market disciplines.

We would like to offer the Rural Electric Program as an example of a rural development strategy that has been very successful. The REA became law in 1936, and the Government encouraged the formation of consumer-owned cooperatives. There were many who said it couldn't work, but it has. It has worked largely because we've turned the pyramid upside down and the power in these programs comes bottom-up.

The power of the Rural Electric Program and the dynamic success to which we point with great pride can be credited largely to the very effective relationship that's been formed between the consumer-owned cooperatives, who are there with deep roots, a strong commitment to that community, in partnership with the Federal Government through the REA. This program would not have worked without both components. There is no way the struggling rural communities, in the depths of the depression could have formed an electric utility cooperative without the Federal Government. That is a plain fact.

On the other hand, the genius of this program has been that the Federal Government was able to work with these local, consumer-owned cooperatives and provided a delivery system on a tailor-made basis, because what is required in Georgia doesn't work in North Dakota, necessarily. The communities are entirely different.

I have had a lot of experience with Federal programs. I've been in government 17 years of my life, and a progressive in this political spectrum—politically progressive and convinced that the major failure of most Federal programs has been that they're much too top-heavy—programs in which the decisions were made in a central point—filled in rigidities to the point where the system can't bend but will break.

The genius of the Rural Electric Program is the other way around. We can bend. We can adapt. We can shift. But there must be a Federal partnership in any development strategies. Local rural communities cannot do this on their own.

Mr. Chairman, we are studying the possibility of using the REA co-op model as a means of improving the delivery of a whole host of Federal programs.

I served as USDA General Officer for 4 years during President Carter's administration and many were the times when I had a call from a political leader asking for a grant to be made to a community for an industrial park, or a water system, or something of the sort, and the decision was made politically—the absolutely worst way to run a sensible program. We made decisions on the basis of political pressures. It didn't make sense. But it's the way it worked then and it's the way it works today.

We granted money for water and sewer projects, for development parks, and the only thing that came was grass—no business. Nothing came from it. It was well-intended, well-motivated, but didn't work.

We have got to arm, equip, and strengthen the local community in these matters. And we are looking into the possibility of the Rural Electric Cooperatives joining in the community in a much broader agenda, including our rural electrification, of course.

We have started this study. It's going to be finished by the summer or fall of this year, in which we will hold our own hearings to determine the scope of this enterprise, but we have already started with some things to broaden our agenda. For example, we have launched health fairs. We provide the members of our rural electric systems of an opportunity to get a simple blood test, and a simple blood cholesterol test, and a simple eye check, and it's appalling, Mr. Chairman, the numbers of rural persons that don't get a physical examination. More than half don't go to a doctor or a hospital until they become sick.

This is preventive care. It's a long way away from the electric business but it is part and parcel of our commitment to rural communities.

We have launched a program in television, bringing high-quality television to the 15 million rural families who are living beyond the reach of cable and will never be served by cable. This, again, is a part of our community service agenda.

These are all very important, Mr. Chairman, but what we are really looking at in the long pull are jobs. We need more jobs in rural places. I don't mean to minimize the importance of agriculture. It is clearly a major national crisis that must be dealt with but, in addition to that, we think we need to maintain a diversified economic agenda in rural places.

In my own family, I have six kids and one farm. Fortunately, the kids can live in northern Minnesota, where they have chosen to live because there are jobs around, and not all those jobs came just out of a clear, blue sky; they were the result of hard work by our local communities. I could go into some experiences there, but the point of all this is that we need more jobs in rural places.

Our experience has been in working with the TVA that the great, overwhelming bulk of new jobs comes in building on existing industry, building on indigenous resources, whether it's agriculture, forestry, recreation, or whatever, built, of course, on a dedicated, and well-trained labor force.

People have the desire to work in rural places. The rural work ethic is famous and it's accurate. They also have a strong desire to stay in rural places.

We sampled the opinions of the 10 million families that live in the rural communities and served by an REA co-op to see if they are there because they are forced to stay there, or they are being entrapped. Why are they in rural communities even though they would financially be better off to vote with their feet? They said, "Because we like it here."

There are certain compelling advantages to living in a place with a lot of space, and I understand. Agriculture is my training. We've known for a long time in animal husbandry that if you crowd these critters they'll kill each other off. It's interesting; we've learned that in managing chickens or pigs, but we haven't learned that with people. And so, here's a lesson, I think, for all of us; we need space, and the rural places offer this space, but we don't offer other things we do need.

We don't have big banks. We don't have deep pockets. We have the disadvantage of sparse population. There's where we think the rural electric co-op model can be used to set a pattern for other development.

We are looking into the possibility of recommending to you and your colleagues major and fundamental changes in Federal law—it would be a year or two before we are ready to be specific about this—that would transfer certain development functions to a single agency that would grant to the local rural electric cooperative and the other leaders of the community access to funding for two purposes, one, grants for technical assistance, and, two, loan guarantees for construction, and that the process be simplified, and be accessible.

I was the General Officer at Farmers Home Administration—a good agency—about 2,000 county offices. Our staff was recruited from agricultural colleges. These were good, farm credit lenders. When we got to talking with them about rural development, and jobs, and all the things that were required, all we got was blank stares. They didn't have the foggiest idea what we were talking about.

The agency is not trained in this discipline and, still, there are several titles of law that charge the FmHA with responsibility in rural development. They are not staffed for it. They don't train for it. They're not structured for it, and the interest is not there.

We really believe that the REA mission can be reformed—that's my personal opinion—and recharged with the authority to link with the local community where we really build an intelligent, bottom-up kind of structure that can tackle these very difficult development problems.

They include investment. I mean, none of this is going to happen without investment. We are going to have to invest in education, in roads, in an infrastructure—invest all kinds of things, time and money. Otherwise, the rest of it becomes a fool's paradise.

We are going to have to organize ourselves and be a part of a national strategy. The agricultural problems of the country are rooted in national problems that can be handled. They can be managed. I mean, we can manage our way out of this mess just as we got into it kind of by accident. But the rural communities cannot be separated from a national macrostrategy.

I am pleased that you have distinguished experts like Dr. Robert Reich and others who have spent a lifetime looking at macropolicy, and who want to be a part of the answer, Mr. Chairman. We're just not in the business of handing out criticism. We really want to find answers to these things and help as best we can.

We in the National Rural Electric Cooperative Association and our 1,000 consumer-owned members are prepared to spend time and money finding the answers and working with you and your colleagues in this very important mission.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

We will proceed with the other witnesses, and then return and open it up for questions. I think you've given us some fruitful areas to review when we return for questions.

Next, we will hear from Mr. Robert Rodale, who is Chairman of the Board of Rodale Press, Emmaus, PA.

Mr. RODALE. Right, yes.

The CHAIRMAN. Go ahead, Mr. Rodale.

STATEMENT OF ROBERT RODALE, CHAIRMAN OF THE BOARD, RODALE PRESS, AND PRESIDENT, RODALE INSTITUTE, EMMAUS, PA

Mr. **Rodale**. Thank you.[1]

I am a magazine publisher and a book publisher. We publish eight magazines, which every month, reach one-fifth of all the households in the United States, with the general idea that there exists within the American people a capacity for improvement, for self-reliance that is not fully being used and that can be enhanced with inspiration and information.

We also do quite a sizable amount of agricultural and community research in a public service fashion. We are the only private research center in the United States that has a USDA, Agriculture Research Service Staff right within our operation, and we are very appreciative of that help.

Now, our point of view in agriculture is that there exists tremendous internal resources on farms; that farms need inputs, like fertilizer, and pesticides, and energy, but the real strength of a farm comes from the minerals in the soil, the fertility of the soil, the rain, the work of the people, the ideas of the people and the nitrogen in the air, for example.

These are something that farmers don't have to pay for every month. When they inherit a farm, they get the internal resources, or when they buy a farm, they get it. And it's very, very economical to the bottom line of the farm to enhance these internal resources. We're now working with about 10 percent of all the farmers in the United States on what we call low-input agriculture to have them be more cautious with their external inputs in an effort to save money, maintain production, and actually enhance the value of the internal resources.

Now, about 3 years ago we began thinking that a rural town has the same internal resources. Every town, every city has internal capacities. And we began doing—not needs analysis—we began saying, well, what is the point of analyzing your needs and going to the Federal Government to get help when, first of all, that help is very, very difficult to get now; and, second, even if you get it, it doesn't enhance your capacity.

So, we invented something we call capacity analysis for a town, where we suggest to the people that they ask themselves: What's good about this place? What's good about us? What are our assets? And then we draw on the associations in the town. The great strength of American rural town is the associations—the ways that people meet to not only deal with their problems but to work together to make their community better.

We began working in Iowa pretty much by accident. The Governor of Iowa wrote a form letter to me as a businessman in Pennsylvania asking me to move to Iowa. And I said, first of all, we already do $24 million a year business in Iowa through the Meredith Company that handles a lot of clerical work for our book clubs.

I gave him a lecture in a letter, and I said, look, you know, Iowa, which is now perceived as the West Virginia of the Corn Belt, is really the richest place in the world. You've got the best soil, fine people, wonderful climatic region. I said, I can show you how to regenerate your State with what we call our regenerative agriculture. I said, why doesn't Iowa begin a process of regeneration of the State? And he sent to see me the Head of Economic Development of Iowa, Alan Tomes, and we had 90 minutes together. I think I convinced him that, at least in part, a community regeneration strategy was worth trying in Iowa.

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[1] See p. 168 for the prepared statement of Mr. Rodale.

We held a meeting there November 17 and 18, in Des Moines, sponsored by the State and by Rodale Press. It was my understanding the first time ever in the history of Iowa that rural development and urban development people had ever met in one meeting.

And at the end of it they said, well, we're going to give you a town. We're going to give you Greenfield, IA, and we want you to see how your message plays in Greenfield, a town of 2,200 people just 1 hour from Des Moines.

I went there a month before the meeting, and it was a little—frankly, it was tough, because they said, what are you doing from Pennsylvania in Iowa telling us here in Iowa what we should do?

We were very fortunate that we have a branch research center in Boone, IA, run by Dick Thompson. So, I could say, look, you know, I'm from Pennsylvania but I'm part of an Iowa community.

We got our Iowa colleagues and we held meetings in Greenfield, and the people responded wonderfully. The gist of the meeting was that Greenfield has, within itself, the capacity to regenerate. The town did an inventory of their assets—they preferred the term assets to capacity which I think is good—and they were very enthusiastic.

And the newspaper, the Adair County Free Press, which, in my opinion, is the finest newspaper in the United States, comes out every Wednesday. The only time there's ever a traffic or parking problem in Greenfield is when the newspaper comes out. But the people held a meeting and they listed 130 assets of Greenfield, IA.

Then they had another meeting and they divided up into 10 groups. They took tourism, food production, and parks, and they began forming local groups to use these assets more effectively.

This program now is about 3 months old. It's a little early—I can't take you there and say, this is exactly what's happened. But you can go and you can see marigolds planted all over Greenfield. They're planting gold in Greenfield—yellow marigolds as a sign of their enthusiasm for their own capacity.

Now, in my prepared statement I do have suggestions for a Federal role. I will just read one paragraph. "Instead of answering the question: 'What should the Federal Government do to revitalize rural America?' I would like to answer a different question. If people are going to revitalize their communities, what can State and Federal Governments do in partnership with each other and with universities and the private sector to help the process of regeneration?"

I should say that this effort at regeneration in Iowa is broad based. Iowa State is involved. Iowa State is starting a new long-term experiment in low-input agriculture, and our soil scientists and agronomists are helping them very much in doing that.

Now, I have five policy options for the Federal Government in my prepared statement.

One, State and Federal Governments could pool resources with foundations, universities, and the private sector to finance regionally based mechanisms to fund rural regeneration projects.

Second, establish a fund for the regeneration of rural America administered through State governments to community groups working to strengthen the local economy.

Now, you know, when you work within the local economy you have a multiplier effect. People begin trading with one another. It's not a protectionism. It's not a form of keeping the outsider out. It's a new way of motivating people to want to do business with each other within the community.

Three, fund the projects which are already working throughout the United States to give communities the necessary tools to rebuild their economies. Look for successes. We are not the only organization doing this kind of work. There's the Rocky Mountain Institute, the Center for Neighborhood Technology, the Institute for Local Self-Reliance and the Missouri Community Economic Development Projects.

Four, support State efforts such as the excellent agriculture economic development programs which Jim Hightower is doing in Texas and Gus Schumacher in Massachusetts. These efforts could be expanded and copied.

And, finally, support research efforts exploring the effects that current agriculture programs have on rural life.

There is, in the Farm Bill, the Agriculture Productivity Act of 1985 for research into low-input agriculture and it's up for appropriations now. I testified a few weeks ago at the Appropriations Committee. There needs to be support for research into the value of the internal resources of agriculture, so that farmers can again get their hands on the really true vitality of the American rural areas.

Thank you very much.

Senator **Conrad** [presiding]. Thank you very much. It's fascinating testimony and we will look forward to getting a chance to ask you some questions when we finish the testimony.

We now go to Mr. Ken James who is the president of Appalachian Computer Services of London, KY.

STATEMENT OF KEN JAMES, PRESIDENT, APPALACHIAN COMPUTER SERVICES, LONDON, KY

Mr. **James**. Thank you, Mr. Chairman.[1]

First off, I would like to state that most of my comments will probably refer to the State of Kentucky and specifically to the southeastern portion of the State, which is very rural and depends heavily on the coal industry, but I think they can be applied to almost any rural area in the United States.

We moved to London, KY, which is approximately halfway between Lexington, KY and Knoxville, TN, on Interstate I–75 approximately 17 years ago. We raised a family and invested in the community as well as the organization that I'm connected with, which is Appalachian Computer Services.

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[1] See p. 174 for the prepared statement of Mr. James.

We have always been concerned about rural development and rural economics and education, and I would like to emphasize education. I think education is one of the key elements to the development of rural economics. In order for rural areas to grow, we've got to have the education process in place, and we've got to educate our workers. We must overcome, I think, some of the existing educational problems that we have today.

I'm sure most of you are familiar, that particular area of our State is sort of at the bottom of the barrel in education. In our particular area, the dropout rate is 43 percent of high school graduates, and only 7 percent of our adults complete 4 years of college.

Now, that's not to say that we are just standing back and not addressing those problems, because we are. We recently formed an organization called Forward in the Fifth. Representative Hal Rogers, from our district, was a prime mover in that organization along with business leaders, parents, and all concerned citizens. My wife was asked to chair that committee, which she now does, and she spends about 3 days a week working on those endeavors.

Our company, ACS, provides services in the management of information. In the early 1970's, we were a small, struggling company. There was a time when we were virtually bankrupt, but we just wouldn't admit it. However, with help from a locally owned company and some confidence from those individuals in that company, we were able to survive by drastically reducing our expenses and, quite honestly, depending on that company to provide us with facilities at a very cheap rate. They also paid us very generously for the work we did for them. In a lot of cases, they advanced us moneys for work that we were going to do for them in the future.

Today, we would probably call that some kind of a form of an incubator approach. The president of that company now is on our board and is one of our stockholders.

We presently have over 1,600 employees in London, Berea, and Beattyville, KY areas. We have recently announced a fourth location, which we are opening in Wayne County, KY. We will employ over 2,000 in Appalachia by the end of the year.

In gross revenues, our company has grown from less than $1 million in the early 1970's to over $33 million in 1986. We have had an average growth rate of approximately 30 percent since the early 1970's. And, by the way, we have also been profitable each year since then, which I think is very important.

The management of Information Systems Services that are provided by our company are not necessarily tied to any specific location; however, we must have a good workforce. We must have a workforce that is trainable and willing to work.

ACS provides services throughout the United States and over 95 percent of our revenues come from outside the State of Kentucky; 75 percent of our revenues come from private industry and 25 percent from Federal Government.

That sort of gives you a recap of where we are today. I would like to cover some of the areas that I think are important if rural communities are going to be able to create jobs and attain economic growth.

I want to reemphasize that education is the key to economic growth. We need more communication between the educational leaders and teachers and industry and business leaders so that our educators understand the basic needs required of individuals in a workplace.

When I was growing up in rural Kentucky, education was not a high priority in our household. It was not until later in my life that I really became aware of the importance of education.

One of the barriers that we must overcome is to train and educate people, such as from the Fifth District, to train them so that they attack and solve their own problems. In many areas, such as the Fifth District, they have depended on industries that are tied to the natural resources for years, such as the coal industry. Those industries have fallen on hard times and people, in many cases, do not know where to turn. In so many cases, they are not solving their own problems. They are waiting for someone else to solve their problems. A common attitude is: I wonder when someone is going to create new jobs for us? I wonder when a new plant will move to our town?

There is a nationwide tendency for communities to attempt to attract outside companies for new jobs and overlook the possibility of helping local companies grow. If we move a 500-job organization from Ohio or Michigan to Kentucky, then we have not really created jobs; we've simply relocated jobs.

The growing of jobs, in my opinion, is where more emphasis needs to be placed. We need resources and money to encourage people to become entrepreneurs and create businesses. Through training programs we could develop individuals into skilled leaders and managers in business and industry.

If I might just refer to the early 1970's and some of the difficulties we had in expanding our company, I think it sort of gives you a picture of not receiving encouragement. In the early 1970's, financial organizations did not clamor to work with us. They didn't have much faith in us. But after struggling many years, we finally proved that we were for real.

And then we started getting encouragement—and I keep stressing that word encouragement because all of us like to be patted on the back and told we are doing a good job. In some cases, that's what keeps us going. Of course, it always takes money, as well.

After we proved that we were for real, we started getting folks to be interested in our financial needs.

We have reached the point, I think, where our financial backers and our bankers are very interested and are supporting us very well.

Today, we employ over 1,600 people and, as I said before, we will employ approximately 2,000 by the end of the year.

Our employees have been very willing to be trained. In most cases though they came from a background that did not encourage education. But today they are encouraging their children to continue their education.

Over 90 percent of our supervisors, managers, and leadership within our organization come from within our organization.

There are many positive and negative sides to our success that time does not allow to go into those. Good roads, utilities, airport facilities are important. A lot of those things in our area have been supported by the Appalachian Regional Commission which have been a vital success to us.

As a principal employer in our region, we are very concerned and sensitive to problems such as dropout rates, high teenage pregnancy rates, infant mortality, and single parents.

ACS is proud of what we've done in the Fifth District of Kentucky. With more opportunities available for young businessmen in industry it will help to grow new businesses and industries. I think that's important for us to consider. Nonprofit, incubator-type companies could support young organizations.

There's a lot of research that's been done by universities and other organizations in the development of new products and services. In many cases, these resources are setting on shelves waiting to be implemented. Incubator companies could become involved and assist in finding needs and services for those products, working with potential organizations and young businessmen to meet those needs.

Our company provides services in the information services, which is the fastest-growing industry in the United States. At the present time, more than half of the entire workforce works in some kind of position involved with information gathering, processing, distributing, and utilization. This means highly skilled and knowledgeable persons are required. It is projected by the end of this century as much as two-thirds of all the work will be information related.

In my opinion, we need to put in place the situations which will start the process of growing jobs. We believe that ACS has proven that this concept will work. With encouragement for business leaders, a large portion of this growth can take place in rural America.

Thank you, Mr. Chairman.

Senator **Conrad**. Thank you.

Senator Fowler, if you would like to begin the questioning of this panel?

Senator **Fowler**. Thank you, Mr. Chairman.

Gentlemen, I thank you all—I'm sure we both do for your fine testimony, and we will, with the chairman's concurrence, make sure that your entire statements are made a part of the record.

Secretary Bergland, we welcome you as always, and I do appreciate the specific suggestions that you have enumerated in your prepared statement and I am very pleased that, with the usual progressive outlook of the investor-owned REA's that you are trying to work with us in this study that you described over the next couple years, as we look at the overall questions of rural America and how we can do a better job.

Before I ask you a couple of questions, I do want to thank you also for the work that you are doing with the health fairs. I have been to a couple in Georgia. I don't know of any greater supplement to many of the policies at the Federal and State level than preventive medicine and preventive health, and with your extensive network used in this way, I know it has been a great success. I hope you will continue them and I commend you for it.

May I ask you this. Reflecting back to your days as Secretary of Agriculture and certainly as you described your experience in agriculture, we all agree, I assume, and it underlies the testimony here this morning from all three of you, the need for diversification in our rural areas. The need for education, as Mr. James described, we all know what it means for personal advancement, personal success, but education also is the absolute key to real economic development.

But I wonder, Mr. Bergland, if you would reflect on our agricultural policies today—our current agricultural policies. What is their impact in rural America? Are they helpful? Do they need to be changed and in what way, based on your experience, should they be changed if we are to bring our agricultural section back?

Mr. **Bergland**. First of all, Senator, I think the current farm problem has its roots in the early 1970's. For 2 years in a row, in 1972 and 1973, the world consumed more grain than it produced. We had the southern corn blight devastate the corn crop in the United States. The terrible Arabian desert winds destroyed much of the Soviet crop; China suffered; India was suffering. The Australian Continent had serious drought. And as a result, the world's grain reserves dropped. Prices doubled in less than 2 years.

The Soviet Union during that time entered the world markets and bought up the world's reserves and made a killing on it.

The small, weaker importing countries did not want to turn to the Soviet Union to buy their grain reserves.

We thought we had made a big deal because we had sold the U.S. wheat crop to the Russians at a cheap price and that was regarded as a coup. It was a disaster.

As a result of the Soviet's control over the reserves and the doubling of grain prices—and the U.S. Government at that time told the American farmers that we've solved the agricultural problem—all of the economic and political signals that went forth from the marketplace and other places said, buy land.

People started buying land. Prices of land tripled in the decade of the seventies. General inflation was driven by the doubling of oil prices and land values that went out of sight. People willingly bought land for twice what it was worth as an income producer, and they knew it.

When we talked to them about why they are doing this they said, because the signals say, buy land, the prices are going up. Everything is booming and the millennium has arrived. A huge mistake.

During that same period, about 50 million acres of very fragile crop land was broken out of grass. We drained swamps. We bulldozed trees and put it to crops. $10 soybeans and $5 wheat and $4 corn is what drove that decisionmaking process. A big mistake.

So it was all over the world. Importing countries wouldn't deal with the Russians to buy the wheat that they had purchased from the United States, and the rising costs of production taught many countries that it was important for them to do their best to produce their own cereals to the extent they could.

So countries like China, Mexico, and India—and I could name 30—invested heavily in their own agriculture, and the results have come home to roost, Mr. Chairman. Countries like China have doubled their yields in 9 years. India is now a net exporter. I think if they had better distribution they would use all they produce. But the whole world has responded to those price increases in the early 1970's and production is up.

You add to that the unwise controls on agriculture products in the early 1970's, under wage and price controls, that forced cattle people to sell off their herds and plow down the grass and put it to soybeans because of $10 beans, which was a flash in the pan: it led to all kinds of mistakes.

The problem with the marketplace is that it can establish price but it can't establish value, and we should never build something as important as Government policy on the basis of fickle market prices because they change every 3 minutes. The marketplace is a reactionary process. It's not a place that establishes values. That's got to be done here in places like this committee.

So, the United States, for a lot of reasons, overexpanded in agriculture, and so did the whole world. I shouldn't say overexpanded, but they've expanded production, increased yields, and this administration's theory is that if we flood the world with cheap grain—and that's what we're doing; the Marketing Loan Program is a dumping process—flood the world with cheap grain, somehow these other countries will abandon their own production strategies and will turn to the United States to buy this grain that we are offering at very cut-rate prices.

I don't think it's going to work. I have friends in Mexico and other places that tell me, look, we are not going to abandon our agricultural policies because the U.S.A. happens to have a surplus it's trying to dump. The strategy simply won't work.

Now, we may get bailed out by bad crops in the world, but it's not the result of intelligent policy.

I think what you did 2 years ago—or the Congress did 2 years ago, in the 1985 Farm Act, establishing the conservation reserve program is a very important, good step in the right direction. We ought to target that 50 million acres that was broken out of trees, grass, and swamps and put it back to that.

The problem is that the marketplace says, well, a swamp isn't worth anything. Well, it is. There's value if not price. We need to spend a lot more time on a conservation program and the conservation reserve is the vehicle. It's a good program. The administration is supporting it and doing a good job with it. It needs to be bigger.

I think the growth in U.S. exports—and, first of all, the farm problem is primarily associated with exportable crops. It's not chickens and turkeys, although they are getting in—going to get into—big trouble in a year, because cheap feed means cheap livestock. I have heard Senator Conrad make that speech many times, and he's absolutely right. This cheap feed is resulting in a big expansion of livestock and poultry production, and it's all going to crash, but for the moment the problem is in exportable crops.

The growth in exportable crop markets is not in Japan. All this fuss with the Japanese or quarreling with the Canadians over a larger share of the marketplace is all very interesting but not important. The important growth is in the Third World. There are at least 70 countries in this world that are too poor to buy what we have to sell at any price. Anything that we can do to help them raise income is going to result in an increased sale of U.S. crops to them for cash and at fair prices.

I am not in favor of export subsidies. This thing that was done with the Soviet Union the other day is nonsense. Now, there's some local short-term gain and some exciting interest, but as a long-term strategy, it's a disaster.

What about our cash-paying customers that are going to come back? Are we going to treat the evil empire better than we do our allies?

The truth of the matter is that we've got to spend a lot more time and attention in the Third World and help them develop their economies, and they'll be back. They'll buy and pay for what we have to sell.

In the meantime, we need to have a better crop control program to divert our soil from the production of surpluses that can't be sold into a conserving use until such time as we need this land back in production.

The way the current farm program is run I don't think it's going to work because it leaks like a sieve. They have written rules in such a way that it is simply not effective.

Senator **Fowler**. Thank you. Let me ask you one other specific, and then, Mr. Chairman, I would like to question the others but I'll let you question.

Again, based on your experience and also to a degree with that background, is today's Agricultural Extension Service, does it continue to perform a valuable role for our Nation's farmers and rural communities and if not, what else can it do, based on today's technologies and policies that might make it more valuable?

Mr. **Bergland**. Yes, sir, I think it does.

I think the Extension Service is effective. Its role is changing as agriculture changes. The genius of that program, again, is that it is able to adapt.

Local extension committees establish the agenda. It works through the State universities and it works well. So, I have no criticism of the way it is currently structured. I think we ought to build on that model.

I saw what Governor Blanchard did in Michigan.

Senator **Fowler**. Is that the kind of model that you anticipate following in your strategy?

Mr. **Bergland**. Well, that model can be used to transfer technology and train persons, and I think it's useful. The State of Michigan has established an industrial extension service.

Battelle Institute, in Ohio, is working on this one, where it goes to the business of helping these local communities in industrial community development. Here's a way it could be done, use the agricultural extension model and build an industrial extension service.

Our role in the co-ops comes as facilitators, as we have local leaders; we have time to invest and a commitment, but we absolutely must have the Government's help with these matters.

Senator **Fowler**. Mr. James, what is the 25 percent revenues that you get from the Federal Government? Where does that come from?

Mr. **James**. The Department of Justice.

Senator **Fowler**. For what?

Mr. **James**. Contracts that we have with the Immigration Department.

Senator **Fowler**. To do what?

Mr. **James**. To manage the information concerning folks who visit the United States legally on a daily, weekly, and monthly basis. And we have other contracts with Federal Government agencies, but that's one of our main contracts.

Senator **Fowler**. So, I see. So, you're talking about, when you describe these, you are breaking out an estimate of your revenue, meaning your profit and 25 percent comes from Federal Government contracts?

Mr. **James**. Well, not necessarily profit, but 25 percent of our revenues come from Federal Government contracts of some type.

Senator **Fowler**. Most of them are to monitor or track seasonal immigration workers?

Mr. **James**. That's one of the main ones, but we have other contracts, where we care for information for various agencies.

Senator **Fowler**. In talking about educating our workers, you described but you didn't testify. What are the impediments that you think to the word you used—what are the impediments to better educating our workforce?

Mr. **James**. Well, as I said earlier, my comments are probably localized to the State of Kentucky—southeastern Kentucky. But our educational level is very low, and we experienced the average person applying for a job just needing basic skills—read and write, be able to fill out an application to the point to where we can train them. We don't really ask for trained people. We just want people that we can train.

We are finding a lot of high school graduates that are not even able to fill out an application. They simply don't have the skills to do that.

They also lack a lot of other skills which relate to the interest in getting a job—how you would say, yes, sir, and no, sir, and how you punch a clock at 8:00 o'clock in the morning and punch it at 5:00, and that you are supposed to work 5 days a week instead of maybe 3 or 4, and just real basic problems that I think exist particularly in our area. I am not familiar with a lot of the areas but some of the areas.

Senator **Fowler**. This committee that you and your wife and other community leaders have established working with the local school system to try to address these problems, is that the function?

Mr. **James**. Yes, it is. It's a community that——

Senator **Fowler**. Have you had any successes?

Mr. **James**. We have had some limited successes at this point, since it is a very young organization.

The main purpose of the organization is just to heighten the awareness in the areas about the need for education. And we're working directly with the local teachers, local leaders in education, and in some cases, we've already gotten what we call local affiliates started in each one of the school systems. And that's a vehicle used to set up small, monetary awards to be given to a teacher to do a small program within the classroom that may mean $100 or

$500 for her to do whatever—or he to do whatever they would like to.

We are really trying to get to the grassroots to encourage the teachers for what they're doing and to raise the awareness of the need of education.

Senator **Fowler**. One other question, Mr. Chairman.

Do you all do any work in fiber optics?

Mr. **James**. We use fiber optics to transmit some of our data, but we don't actually do any work in it, per se.

Senator **Fowler**. They tell me that there's a lot of work progressing on fiber optic cables to link up major cities of the country with all this information that can be transferred through these cables. Looking down the road, is there anything that would prohibit, technologically, the linkage of rural communities with fiber optic cables so that people could live where they wanted to in a town of 1,500 and still have the same access to information and the workplace that so many people in the cities will have in the next 5, 7 or 10 years, and now have in the major places?

Mr. **James**. No, sir. There's no reason why it cannot be done. I guess the major problem would be just the need and the money to do that.

I know in our neighborhood we have a fiber optics network as close as 10 miles away in Corbin, KY and, of course, that's the result of CSX need of it there.

Senator **Fowler**. Would that, in your opinion—if that were in place or where every local—where every small community could, say, be within 10 or 15 miles of a fiber optic network would that, in your opinion, grow jobs, to use your phrase, almost overnight in those areas?

Mr. **James**. I think it would have a great influence on doing it, because it would put organizations, such as ours and other organizations that are related to the information industry, in a position to where that they could compete and be more available in the marketplace. And it would not have to—it could locate in the more rural areas.

Senator **Fowler**. Thank you, Mr. Chairman.

Senator **Conrad**. Mr. Bergland, if we could go back to a statement that you were making. Before I go into it let me just say that Senator Leahy wants all of you to know that he was called to the Steering Committee meeting, which was called on very short notice this morning. That's where Senator Harkin is, as well.

That's something, as you know, Secretary Bergland, when you're called, you go to a Steering Committee meeting.

So we are happy to take this testimony and, as Senator Fowler has indicated, the full statements will be entered into the record, but let me just——

Senator **Fowler**. Many are called but few are chosen.

Senator **Conrad** [continuing]. Let me just inquire, you've made the point that our current policy—agriculture policy is wrongheaded—wrong-headed in the sense, as I take it—correct me if I'm wrong, but we have a policy of cutting price in order to regain markets. We cut price. Our competitors cut price. We all wind up with less money, and what we have is a world-wide problem.

We've got worldwide oversupply. As a result, we have tremendous downward pressure on price, and as a result, we have the rural areas being depopulated, as you point out in your testimony.

If you were back in the saddle, if you had the chance to be the czar of agricultural policy, what are the steps that you would take—the immediate steps to revitalize the agricultural economy, which is the basis, obviously, for much of rural America?

Mr. **Bergland**. It would have to be a double-barreled approach. The international market is in three segments. About one-third of our sales go to the industrial-developed world, and there isn't much more we need to do there. There's no growth there, either. About one-third goes into the developing economies, the Koreas, the Mexicos, and there are things we can do there. The real opportunities are in the poor, Third World.

I would take a little bit of the subsidy money that is now used to try to compete in the world markets and put a small part of that into the Foreign Market Development Cooperator Program of USDA, an overlooked, but very effective joint venture between the government, through the Foreign Agriculture Service, and the commodity based cooperative groups that have tremendous skill and send experts into places like China, and in Africa and South America, to teach them how to cope with animal disease, and how to use mixed feeds, and how to improve their agricultural—in those cases, livestock economies.

The United States, through this program, built a bakery in the rebuilding of Japan after World War II and introduced bread to that population. That's how it works.

I would put $500 million into that program. It currently is limping along at about $30 million. This is tremendously effective and ought to be substantially expanded. Teaching people how to use mixed feeds in a developing country is infinitely more important than subsidizing an industrial economy by using some kind of an export scheme.

The world's problem today is not that we have a surplus of crops; we have too much poverty. If those poor people could find a way to buy and pay for what they need, our surpluses would evaporate overnight, literally. We need to spend a lot more time on the demand side of the world economy to help those poor countries improve their diets and provide a better balance.

On the domestic front, I would stress conservation—effective conservation programs—not just in controlling soil loss but dealing with water contamination. For example, most everybody knows that agricultural runoff is a serious source of contamination of some of our water supplies. We could accomplish a number of objectives.

Let's put a half-mile green belt around all of the fingers, and borders and boundaries of the Chesapeake Bay and rent that land out of production and put it into grass and use it as a filter to filter the runoff into the Bay.

I mean we could accomplish a number of public objectives with one single program. We could reduce the surpluses of crops and protect the environment at the same time.

The problem with the current policies is that they tend to be commodity oriented. Each commodity group has its own agenda, and there is simply no way of melding these into a broader and more sensible public policy. But it must be based on conservation at home and development abroad.

Senator CONRAD. Let me ask you this question before I go on to the other witnesses, because I have some things I would like to inquire of them, as well, but if the diagnosis is right, we've got a worldwide problem, imbalance between supply and demand. That would suggest that we would seek a worldwide solution on both parts of that equation. We would do as you suggest, seek to build demand, not just on a unilateral basis, but multilaterally.

It would also suggest, on the supply side, that we would seek, on a multilateral basis, to reduce supply and get others to go into a conservation reserve because the environmental problem we face is not unique to this country; we share it. We would seek with other major producers to have set-asides, for example.

If you agree with that analysis, that we need to work both sides of the equation, supply and demand worldwide, not just unilaterally, how do we convince the other major producers to participate with us in that kind of effort?

Mr. BERGLAND. Well, first of all, we have to ask them.

Senator CONRAD. Have we done that?

Mr. BERGLAND. No, we have not.

Senator CONRAD. And what's the reason for not doing that? It's interesting you do that, because we've had Dick Lyng before the Budget Committee and I have urged him. I've asked him. I've cajoled him to do precisely that. Let's ask. Let's put it on the agenda. Let's, when we meet with the major producers, suggest to them that they participate with us in working both sides of the equation. And I get nothing back—very hard for me to understand. Why don't we ask them?

Mr. BERGLAND. Well, I think it's a belief that the marketplace can sort all this out; that if we leave the market to its own devices and seeking its own inevitable courses that it can solve this problem. And the problem with the marketplace is it ignores some of the political realities. I mean, Mexico is not to going to disband or dismantle its agriculture because we've got cheap grain. They are not going to do it. It's a matter of national security. They are not going to do it.

So we run headlong into these national policies that tend to inhibit strict trade, it's true, but those nations have decided for their own reasons to maintain their own agriculture. The administration's policy is to let the marketplace sort all of this stuff out; well, it's not working, and it's not going to work because national governments get in the way.

Senator CONRAD. And so, what you're saying, as I hear you saying it, is that ideology is getting in the way of a practical addressing of the problems that we face worldwide?

Mr. BERGLAND. I think that's true, yes, sir.

Senator CONRAD. Well, I'm glad to hear that from you. I must say I've reached the same conclusion after looking at the answers that I've received. It just strikes me that it is so apparent that our problem is a worldwide problem. It's going to require worldwide solutions. It's going to require working both parts of the equation, the supply side, the demand side, and it is going to require us to reach out to the others who are part of the problem and part of the solution.

Let me just turn to our other witnesses, because I was very taken by the similarity of the testimony of all three of you. What I hear you saying is that it's not the Federal Government reaching out its hand from Washington and developing a policy that leads to regeneration—your word, Mr. Rodale—a good word, I think—and it is not the Federal Government dictating a policy; it is a partnership in which we seek bottom-up solutions to the development problems across the country.

Am I hearing you right, Mr. James? I sense very strongly—here, you've got a company started out in Kentucky that's an information processing company that does most of its business outside the boundaries of that State. It's very interesting to me because I've proposed precisely that in my State. It strikes me that information processing can be done anywhere in this country. That's precisely the fastest growing industry in America and it would strike me that is precisely the kind of thing we ought to be encouraging in the rural areas.

Is my formulation correct? I mean, am I capturing what your recommendation is, that there be a partnership; that there be bottom-up solutions; that we not have Washington telling Kentucky what to do or North Dakota what to do?

Mr. **James**. Yes, sir, Mr. Chairman. I feel very strongly that we've got to help ourselves. We can't just depend on somebody else giving us solutions. That's not to say that there's not assistance that cannot be provided.

One thing in my prepared statement, we utilize the Job Training Program Act to—the best we can. It's been very helpful for us. We have to train over 95 percent of our employees. And that has been a godsend for us. It would have been——

Senator **Conrad**. Could you have been successful without that?

Mr. **James**. Well, we probably could have been successful but not to the point where we're at. We have trained someplace in the neighborhood of 1,500 to 2,000 employees, or 2,000 people, I should say, over the last 4 or 5 years through that problem.

Senator **Conrad**. And 25 percent of them have been through JTPA?

Mr. **James**. That's right, and it has made life a lot easier for us to do that, yes, financially, and it would have been a very hard burden for us to carry all of that.

Senator **Conrad**. Let me ask that same question of Mr. Rodale. I must say I was very taken by your testimony. It's intriguing. There's something captivating about the process that you are talking about going through—this notion of regeneration, getting the people together to talk, not just about what the needs are, but what the assets are, and what are the things that we have to build on.

I hear you saying this same thing, this notion of partnership, but a bubbling up from the community—am I hearing you right?

Mr. **Rodale**. Right. Well, I think it's very important to realize that there is a lot of success today in American agriculture. I get out and talk to farmers a lot, and I find some that are doing very, very well. About one-third of all farmers, from what I understand, are doing very well. I also meet people who are starting new farms. There are new farms being started now that are doing extremely well.

If you study success, it's much easier to expand success than to limit failure, in my opinion. As a businessman I've learned that. If you are failing, look for what is your strength and build on that rather than being preoccupied with failure.

My view of the failure of the farm programs is they are too commodity oriented. If you want to talk to the failing farmers in America, they are corn farmers and soybean farmers, and they are saying to the universities, find more uses for corn.

I've been born and bred a corn farmer. Minnesota—I was just up at the University of Minnesota. The number one pressure they are getting is find more uses for corn. I think we would do a lot better to look at the farmers who are succeeding, and ask, why are they succeeding.

Senator FOWLER. Why are they succeeding? What are one-third of our farmers doing and are they doing it without Federal assistance?

Mr. RODALE. Well, first of all, there are certain crops which get no help from the Federal Government and——

Senator FOWLER. We know that, but what are the experiences? Are they farming catfish, or what are they doing?

Mr. RODALE. In general, they're——

Senator FOWLER. What makes them successful?

Mr. RODALE. They are producing food, more for people to eat than animals. A lot of the problem is in the feed grains rather than the food grains, although wheat is a problem.

Senator FOWLER. And do they have a direct market access that they are producing for?

Mr. RODALE. Right. The New England agriculture, in general, is doing very well. They have a lot of people there and there are a lot of farms that are producing food for people to eat.

You know, agriculture is very diverse. So, you can't generalize. But they're getting more into the market directly.

They are putting brand names on their products. There are ranchers in the West who are getting together to produce lower-fat beef, and they actually go into the supermarkets and get the display cases and advertise it. They are innovative people.

You asked about the Extension Service. I think the Extension Service really needs regeneration. I mean, it needs to be much more—it needs to work both ways. The idea of extension now is the university is the font of all knowledge, and the people out there are kind of inadequate, in trouble, and they need some expert from the State college to go out and tell them to shape up.

Well, the Smith Lever Act, which authorized the Extension, provides for a two-way flow, and there's supposed to be a two-way flow. And there's 2½ million volunteers out there who are supposed to be feeding back, but the process is not working. It's constipated. It's clogged. Some places it's working and some places it's not. It depends on the enthusiasm of the agent.

But I think a real good look at Extension and ways to stimulate the flow of—look for the successful farmers. Take all your Extension agents for 1 year, and say, stop what you're doing and go out, look at what's working, and then go back to the university and present what's working. You would see a tremendous regeneration of agriculture.

Senator **Fowler**. Thank you, Mr. Chairman.

Senator **Conrad**. Let me just point to a couple of things I have heard here and ask you to flush out the ideas.

Mr. Rodale, you've talked about the fund for the regeneration of rural America.

Mr. James, you've talked about the need for entrepreneurs to have a place that they can go for help with credit.

Secretary Bergland, you've talked about the need to have one place where we could go to have the focus of the development programs, and even have a proposal of where that might be.

What I am hearing here is that we need to have a partnership—a Federal-State-entrepreneurial partnership, but there needs to be a focus for that kind of help.

I would be very interested just to hear each of your views on the suggestions you've made.

Mr. Rodale, yours on establishing a fund for the regeneration of rural America, precisely, what are you talking about there? What would that do? What kind of help would it provide?

Mr. **Rodale**. Well, we need some basic research and basic thinking into the internal assets of American rural land and rural communities.

In our work, we just go into a community. We ask people, from your own knowledge: What is good about this place? What are the assets? But I think we could use systematic research. For example, the air is 78 percent nitrogen, and farmers are spending tremendous amounts of money to buy nitrogen when every time they breathe they are breathing 78 percent nitrogen.

We know a lot about how to get that nitrogen into the soil with leguminous plants, but we need many more leguminous plants to be incorporated into farming systems.

And there are similar legumes in terms of town development. There are things that work. There are successes that are happening in town regeneration around the country.

Senator **Conrad**. So, how would this fund be administered? I mean, help me understand what you're suggesting here. If we had such a fund, who would administer it? How would people get access to it? Would they be making loans? Would they be making grants? I mean, what's your proposal?

Mr. **Rodale**. Well, perhaps the best way would be to use what is going on in Arkansas as a model, what the Winthrop Rockefeller Foundation is doing with what I call a regeneration bank. They are setting up a bank that is intended to fund just projects that use local resources and then create certificates of deposit—different kinds of banking entities. I think whenever you get into funds, there are many questions. It has to be done right. You don't want it to——

Senator **Conrad**. What I'm asking is, how do we keep it from being a political boondoggle in which you have a pool of money and everybody runs in to get theirs and you get it by calling somebody that's got power somewhere in the political system or somewhere? Bob Bergland referred to it in what happens in the USDA, where we had all these things that were well-intentioned and moving down a track that seems to make sense, and it gets sidetracked because, when the ultimate decision is made, somewhere the merits get lost, and what's decided is a political decision on who speaks with the loudest voice.

Mr. RODALE. Well, there still is a tremendous need for research of the value of internal resources. I think that would be a number one priority.

There are basically two ways that people get money to start businesses. One is through love and the other is through crime. I mean, if you look at how enterprises are started, either your mother gives you the money, or somehow you figure out a way to steal it from somebody.

I think rural towns need a third approach. They need a revolving loan fund; that mother is now very aged, and she's got her problems, and there's nobody left to steal from in the community. So, they need some kind of infusion of not only ideas and inspiration, but ways to get some money for——

Senator CONRAD. Seed capital.

Mr. RODALE. Seed capital, yes.

Senator CONRAD. Maybe, Mr. James, we could go to you and you've suggested that one of the most difficult things for the emerging entrepreneur is available credit; that in the early stage it's difficult to get a bank to take the proposal seriously. And you cited your own business experience. You really took off when credit became more available. You had the money with which to expand.

What do you see as a Federal role? What partnership could be played by the Federal Government that would be of assistance?

Mr. JAMES. Well, I guess I would go back to part of the educational problem, and that is educate community leaders in the fact that, when we have a young man who wants to start a new business, that he receive encouragement.

My theory of the incubator-type organization is not new by any means. But I think that some kind of a nonprofit organization that would support these kinds of individuals and give them more status maybe in the community where that, as a young man he could walk into the bank; he could go to various loan organizations—financial organizations and be accepted for what he is trying to do.

I don't find it difficult to find places to get money. I would like to see more financing done over a long-term basis with more of a fixed rate. I think it would make it a lot easier and it would be a lot easier for you to expand your business because you could have a better goal that you could shoot for.

I have not experienced a problem of finding places to get money. The problem has been—is convincing those folks to loan us money. And I think that we've got to somehow raise the status of young individuals who have bright ideas, who want to start new businesses, and to give them a place that gets them out of the atmosphere of walking into the financial organization with their hat behind their back with no confidence.

I sort of say all of that from the experience where I came from. So, if somehow we could put in place an incubator-type organization that would foster these young people who have got bright ideas, who can take things that have already been created—services and products and put those in place.

You know most of the research is done by individuals who have a very difficult time actually making it practical. They can figure out new services or new products, but it usually takes another type of person to really make that work.

I think that's where we've failed. We've not been able or we've not been willing to invest in those kinds of individuals like we have the moneys that we've poured into research.

Senator **Conrad**. Secretary Bergland, do you want to take a shot at this? What I'm trying to capture here is, specifically, what role does the Federal Government have to play in developing this partnership, encouraging the bottom-up organization which seems to be the most effective at generating ideas that really lead to some positive development?

Mr. **Bergland**. First of all, a word on the banking question, Mr. Chairman. There are about 13,000 commercial banks in the United States and with deregulation, with the rise of branch banking and interstate banking, it is generally thought that maybe half of these will be absorbed or go out of business in the next several years. This has the makings of a real disaster for rural places.

What we fear is that the moneys and savings will flow from rural places to urban money centers, and shipped overseas, or who knows where.

The experience so far has been that the branch and regional banking does not bring more money to rural places; it flows out.

The second problem we have is that the banking structure is very good at meeting the operation, production, and short-term credit requirements of business, whether it's agriculture or some other enterprise, but long-range and long-term financing is generally in short supply.

We recommend the formation of a national rural development bank; consolidate many of these lending functions now in separate titles and agencies scattered all over the Government. It's just a mess. Create a central bank for development purposes. It could be a secondary market for these local rural banks that are having trouble maintaining liquidity. We think there are just enormous possibilities here.

As Mr. James has said, the real shortcoming in rural places in business development is long-term credits.

Senator **Conrad**. And how would we structure this so that it's the local control, local review that you've pointed to as the reason for the success with the REC's? How would we structure that so we maintain that kind of bubbling up?

Mr. **Rodale**. Well, if you keep the amount very small, there are some very worthy small projects, and I think there's a value in smallness in terms of starting something.

A lot of the enterprises that I've seen that are very well financed fail because they start out with actually too much money, and they never really learn how to be lean.

So, the community regeneration approach depends on community organizing. It's basically a way to organize communities on a new pattern, and these people don't need a lot of money but they need some.

If there was one part of the strategy—and, you know, this is a very new idea. So, I'm not saying that I've got it all laid out, but one part of it could be to make available $1,000 or $2,000 for beginning of collecting a library of community information, a people-pages directory of expertise within the community. These things can be extremely effective but they need a little bit of money to get started.

Senator **Conrad**. What's your view, Secretary Bergland, on how we would structure the idea that you have on a rural development bank?

Mr. **Bergland**. First of all, our notion is based on the presumption that neither private enterprise nor the Federal Government can solve this problem on its own. We need a joint venture.

We are not exactly sure yet how to take the experience of the Rural Electrification Cooperatives and apply this in a broader development role. We don't really know yet. We are looking at it intensely and trying to be very constructive about all this.

We know that it must be tied into the universities. The education that Mr. James talks about is absolutely critical, but the education has to be directed toward real jobs, not simply train persons for the sake of training.

We've all been through that one, and we know what a waste it's been in money and disappointments.

The big problem is in marketing. We know that it's manufacturing that built the middle-class of the United States. It's not the service trades. And we have lost this edge in manufacturing. We need to recover. That's a part of the productivity argument now going on in Congress and elsewhere, and it's a good and worthwhile subject. We want to be part of that, of course, but the question is marketing in many cases. The community can build something efficiently but hasn't the capacity to market. They don't know the marketplace.

I think we can do a better job in structuring some support in marketing. I don't exactly know how yet, but we clearly need to focus on these kinds of things.

Mr. Chairman, you're on the right track.

Senator **Conrad**. Well, let me just say we are going to have to close down the hearing. We've run 45 minutes over now. I want to thank all of you for your patience.

On behalf of Chairman Leahy I want to thank you individually and collectively for the contributions that you've made here to the deliberations of this committee.

Once again, I want to tell you that the chairman would have liked to have been here for the whole hearing—he was called to the Steering Committee meeting, and I know that you all understand how that works around here.

Again, I want to thank you personally as well, because I've been enlightened. Thank you very much.

[Whereupon, at 11:45 a.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

APRIL 7, 1987--HEARING

STATEMENT OF SENATOR McCONNELL

SENATE AGRICULTURE COMMITTEE HEARING ON RURAL DEVELOPMENT

APRIL 7, 1987

Mr. Chairman:

I thank you for conducting this hearing on what is becoming an extremely important issue. Rural development issues will become the "headline issue" of the late 1980's as rural America struggles with the changing social scene there.

I think the time has come that we recognize that rural social policy and farm policy are not always the same thing. As the socio-economic strata of rural America is changing, as farms grow bigger, as high-tech agriculture takes over, we as rural leaders must come to grips with an alarming problem. What will be left of small town America?

One of the leaders in Kentucky on this issue is also a very good friend of mine and is a witness before this committee today. Judge James Everette is the top elected official in Fulton County, Kentucky, which is about as far west as you can get in Kentucky without taking a bath in the Mississippi River. His county is a very rural, primarily agricultural county and most of the farming is cash grain production.

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Judge Everette has been an aggressive advocate for rural America since I first met him 7 or 8 years ago. He recognized that the one-dimensional economy in Fulton County was an accident waiting to happen even during the properous times in agriculture of the late 70's. His efforts to bring business and industry into the county have softened the economic blow which has been dealt most communities in the rural Midwest. I am confident that the testimony that he will deliver today will not only summarize the problems of today's rural America, but will also offer some concrete proposals to revitalize this significant part of Americana.

Mr. Chairman, I'm delighted to have a fellow Kentuckian here and I thank you for holding this hearing today.

STATEMENT BY SENATOR BOB DOLE
SENATE AGRICULTURE COMMITTEE HEARING
ON RURAL DEVELOPMENT
APRIL 7, 1987

Mr. Chairman, I commend you for holding this overview hearing on rural development this morning. I also want to commend Governor Branstad, who is testifying on behalf of the National Governors' Association, for all of the hard work he has put in on this issue. A number of farm states have already done important work in rural development and we need to begin to coordinate efforts at the federal level with efforts of the states and private enterprise.

Last year, a number of Midwest governors, congressmen and senators formed a Republican task force to review four issues we felt were key to improving the overall health of rural America -- farm policy, farm credit, farm exports and trade, and rural development. Many of us felt that rural development had been overlooked far too long.

There seems to be a real lack of coordination between federal agencies that has resulted in an inflexible and unworkable approach to rural development. I understand there are twenty-six subcommittees on capitol hill that have jurisdiction on rural development.

It became evident to many of us that there is an acute need for a national strategy to address the unique problems of rural economies. I would suggest that we need to make rural development a priority on our national agenda and establish a clear sense of direction and strategy for federal assistance to distressed rural regions of the United States. We may need to look at rural development as closely as we do farm policy, farm credit and farm export matters in an attempt to create new jobs and diversify economic activities in rural areas. Certainly, the economic crisis in small town America is as severe for local businesses and entire communities as it is for farmers.

Mr. Chairman, the recommendations of our Republican Task Force on Farm and Rural America are now being drafted into legislative form. I would hope that we can join together on a bipartisan basis to address the needs of our small towns and communities. I look forward to working with you and with Governor Branstad and other officials interested in this important issue.

STATEMENT BY SENATOR THAD COCHRAN

THANK YOU, MR. CHAIRMAN. I WOULD LIKE TO ADD MY WORD OF WELCOME TO OUR PANELISTS. WE APPRECIATE THE ASSISTANCE THAT YOU ARE PROVIDING TO US AS WE GIVE OUR ATTENTION TO THE ECONOMIC PROBLEMS OF RURAL COMMUNITIES.

WE'VE BEEN BUSY ALREADY THIS SESSION WITH ISSUES THAT AFFECT RURAL DEVELOPMENT--WITH HEARINGS HERE FOR THE AGRICULTURE COMMITTEE OR SUBCOMMITTEES ON TOPICS RANGING FROM FARM CREDIT TO NUTRITION OF THE HOMELESS. ALSO, IN THE SENATE APPROPRIATIONS COMMITTEE, ON WHICH I ALSO SERVE, THE SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, AND RURAL AGENCIES HAS JUST COMPLETED A ROUND OF HEARINGS FOR THE AGENCIES WITHIN THE DEPARTMENT OF AGRICULTURE.

JUST LAST WEEK THE SENATE PASSED THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987, WHICH INCLUDES SEVERAL RURAL HOUSING PROVISIONS. THERE IS NO LACK OF INITIATIVES--PROPOSALS TO REVITALIZE THE RURAL ECONOMY. THEY RANGE FROM TOTAL GOVERNMENT CONTROL TO NO GOVERNMENT INVOLVEMENT. OUR MANDATE NOW IS TO SCRUTINIZE ALL THE ALTERNATIVES THAT WE HAVE, TO SEPARATE THE WHEAT FROM THE

CHAFF, SO TO SPEAK, SO THAT WHATEVER LEGISLATION MAY RESULT WILL CONTRIBUTE TO A SOLUTION AND NOT EXACERBATE THE PROBLEMS THAT CONFRONT US. WE APPRECIATE YOUR INPUT TOWARD THAT END.

I NOTICE MR. BENNIE THOMPSON'S STATEMENT RECOGNIZES THE SIGNIFICANT IMPACT THE FEDERAL BUDGET AND FEDERAL PROGRAMS HAVE ON MISSISSIPPI'S ECONOMY--AND IN PARTICULAR, ON RURAL COMMUNITIES. I AM GLAD TO SEE THAT MR. THOMPSON'S REMARKS ACKNOWLEDGE THAT CONGRESS CONTINUES TO SUPPORT RURAL PROGRAMS AND DOES NOT GO ALONG WITH ALL THE BUDGET RECOMMENDATIONS OF THE ADMINISTRATION. ONE OF THE BEST EXAMPLES IS THE FOOD AND NUTRITION SERVICE BUDGET FOR MISSISSIPPI. CHILD NUTRITION PROGRAMS INCREASED FROM $84.8 MILLION IN FY 85 TO $98.1 MILLION IN FY 87. SPECIAL SUPPLEMENTAL FOOD PROGRAMS INCREASED FROM $32.5 MILLION IN FY 85 TO $34.6 MILLION IN FY 87. THE FOOD STAMP PROGRAM INCREASED FROM $279.4 MILLION IN FY 85 TO $285.8 MILLION IN FY 87.

IT IS NOT ENOUGH, HOWEVER, TO SIMPLY FEED PEOPLE. THERE MUST BE THE OPPORTUNITY FOR DEPENDABLE EMPLOYMENT. I AGREE WITH GOVERNOR BRANSTAD'S COMMENT THAT DIVERSITY IN EMPLOYMENT OPPORTUNITY CAN INCREASE STABILITY OF THE RURAL ECONOMY. AT THE SAME TIME, HOWEVER, EVERY EFFORT MUST BE MADE TO ENSURE THE DEVELOPMENT AND MAINTENANCE OF EVERY JOB POSSIBLE IN RURAL AMERICA'S OLDEST AND BEST KNOWN OCCUPATION -- AGRICULTURE.

DURING THIS DEBATE ABOUT HOW TO DEVELOP A RURAL INVESTMENT STRATEGY, OR RURAL DEVELOPMENT PROGRAM OR RURAL RE-INVESTMENT PROGRAM, I SUGGEST THAT WE DO NOT HAVE TO LOOK ONLY TO NEW INDUSTRIES. AGRICULTURE STILL HAS A SIGNIFICANT PART TO PLAY IN RURAL AMERICA'S FUTURE. WE CANNOT, HOWEVER, IMPLEMENT A FARM POLICY THAT WOULD IDLE PRODUCTION AGRICULTURE, AS SOME GROUPS SUPPORT, AND AT THE SAME TIME REALIZE AGRICULTURE'S FULL ECONOMIC POTENTIAL. THE GOVERNMENT'S PROPER ROLE MUST BE IN RESEARCH AND MARKET DEVELOPMENT.

THERE ARE SOME BRIGHT SPOTS. AT LEAST TWO COMMODITIES--COTTON AND RICE--ARE BEING SOLD IN MUCH GREATER QUANTITIES THIS YEAR THAN LAST, WHICH DEMONSTRATES THE SIGNIFICANT IMPACT AN EFFECTIVE MARKETING PROGRAM CAN HAVE ON RURAL JOBS AND ECONOMIES.

SENATOR PRYOR AND I HAVE SCHEDULED A PRESS CONFERENCE FOR APRIL 24 TO PRESENT A REPORT SUMMARIZING THE ECONOMIC STATISTICS PRODUCED BY THE MARKETING LOAN PROGRAM AND THE IMPLICATIONS FOR RURAL AMERICA. BRIEFLY, THESE STATISTICS WILL INDICATE THAT JOBS, COMMERCE AND TAX REVENUE ARE BEING ENHANCED. SIGNIFICANTLY, THESE JOBS ARE IN AN INDUSTRY FAMILIAR TO THE PEOPLE--AGRICULTURE. THIS ELIMINATES THE TIME AND EXPENSE NECESSARY FOR RETRAINING OR RELOCATING FOR A NEW INDUSTRY. THE MAJOR ADVANTAGE OF IMPROVING AGRICULTURE'S

ABILITY TO HELP RURAL ECONOMIES IS THE POTENTIAL FOR A MUCH QUICKER TURNAROUND.

THE MARKETING LOAN PROGRAM IS ONE STEP TOWARD RURAL REVITALIZATION THAT ALSO CAN BE EXTENDED TO OTHER COMMODITIES.

Prepared Statement of Hon. Karen Merrick, Mayor, Guttenberg, IA

I would like to thank you, Mr. Chairman, your honorable colleagues and distinguished guests for this opportunity to be with you today to discuss the changing face of rural America. If I could, I would transport you west with me for these few minutes to my home in Guttenberg, Iowa, to introduce you to the America that I know. If you will, picture a town of 2,448 people in the Northeast corner of the State of Iowa, along the Mississippi River. Great stone and brick buildings march along the river as they have for 140 years, children play unattended except for the community at large, and the old folks walk to the post office for mail and the town news. The sidewalks are in need of repair, but the storefronts are occupied save one. The cars aren't as new as one would find in a Des Moines or a Washington, but they line the streets, and the merchants are grateful.

If you would look even more closely at this community, you would be surprised at its vitality for a metamorphasis has occurred here from a state of economic dependence to a sort of economic self-reliance. The history of Guttenberg over the last six years has been a case study of a community learning how to sustain itself in the face of the agricultural crisis, learning to be what its founders were, risk takers. In 1981, with unemployment rates hovering at 21 percent, community leaders decided that neither the state nor the federal government was going to move fast enough to save our town. With considerable effort the control of Guttenberg's future was removed from these unknowable hands of fate and placed squarely upon the shoulders of local people. The process that we have gone through, from floundering in anger to believing again in our own abilities, is not unique to Guttenberg, Iowa. Groups of people, whether in cities or neighborhoods, families or committees, from time before time have gone through this drama. Perhaps, this morning a retelling of our tale of the last few years may help you in your deliberations.

In 1979 a group of seven people formed a local development committee to try to ascertain how we might combat the seemingly endless string of bad economic hits our community was taking. Aside from the decline in agricultural income, a local modular home manufacturer had closed his doors, laying off two hundred workers. But two years later in 1981, we had accomplished little. For those two years, anger at the state and federal governments seemed to paralyze our ability to act. Then a national company, unsolicited by anyone, came to our door. Without the knowledge of our development group, they were shown an existing vacant building once and then twice. During the second visit, the price for the building escalated losing the firm, the jobs, and our scapegoats. For you see, we had to face the fact that it was not the state or federal governments which had lost this opportunity for Guttenberg. It was our own lack of planning which had caused this loss. From that moment of recognition of our need to try to control our own future, the economic development efforts of our community have been transformed. We realized that the creation of new sources of wealth for our citizens was, for the most part, dependent upon our own initiative. The sustainability of our community needed to be based upon internal control as opposed to external domination. If we continued to allow our dependence upon agriculture to control our economy, we would be lost. Export policy, the EEC, the national deficit, the strength of the dollar, and Gramm-Rudman-Hollings were and are beyond our community's control. What we could and do control is the coordination of efforts between the city council, the development group, and the chamber. With a new willingness to spend time and money and effort, projects once only dreamed about are complete; construction of a new industrial park which is now full; assistance to a local entrepreneur to expand from a machine shop to a manufacturer of aluminum truck bodies, bicycles and boats; placement of our downtown in the National Register of Historic Places; recruitment of three new manufacturers who have created 250 new jobs; the construction of a new boat launching facility with 120 car parking lot and restroom facilities at the southern edge of our downtown; and new retail outlets including a dinner cruise paddle wheeler. And on the drawing boards are plans for major improvements to our downtown to capitalize on the National Register Historic District on one side of our main street and the Mississippi River on the other.

But for all of this I must confess to you that too often I am confronted with an overwhelming sense of abandonment, a sense of the ghetto. As a local leader charged with holding our community together, I have used every weapon at my disposal to hold tight our clan. We have wisely used our assets, from our people to the river. With the help of the telephone and a persistent nature, we have received grants and loans from both the state and federal governments for sewer and water lines and a paved street in our industrial park, for direct financial assistance to businesses and for construction of Mississippi River access points. But still our citizens are underemployed and unemployment, we have lost a grocery store and my physician husband knows that he, like many other rural professionals, could increase his income and reduce his workload by moving to the city. As my Iowa neighbors are forced to leave the rural areas for the urban, as that wonderful mix of rural and urban children growing to become leaders in business and government is lost forever, I wonder what the true cost to the nation will be?

If one assumes that rural Amercia is valuable to the life of the nation and worth saving, then, if we are to stop this hemorrhage of rural blood, perhaps there is something of a tourniquet in the Guttenberg experience and in the experience of other small Iowa towns. As I travel to these little towns in my state to speak to them of opportunity and success and of saving their own communities, common threads tie all of us together. First, small communities are crying for information and technical assistance to formulate effective local strategies for development. Second, leadership is apparent in many communities but how widespread or how long-term is a critical issue. Third, development efforts in our rural communities are volunteer. Consequently, burn-out and its companion stress are tremendous problems especially in those communities devoid of planning expertise. Fourth, regional development or coordinated efforts between rural communities is in its infancy at best. Therefore, if I could design a federal rural assistance program based on my experiences , it would focus on the following. While federal money for grants and loans to accomplish given tasks at the local level is indeed important, technical assistance and information distribution is even more so. While money will accomplish a given task, only knowledge will create the local base to move our rural communities forward. To accomplish this goal, federal aid to state development agencies could be given to create regional development authorities within the states. These authorities would coordinate state and federal financial and technical assistance as well as forming a network to exchange development ideas and strategies within the region. Further, the development of leadership skills should be a major goal of both rural and urban areas. However, formal and structured leadership development is even more important in the rural areas. New York, New York, and Guttenberg, Iowa, have one thing in common, each has only one mayor. However, New York's pool of leadership talent is so large that leadership is assured regardless of any formal structure. Therefore, I would advocate federally-sponsored and ongoing leadership training for those rural communities receiving federal development assistance.

In conclusion, let me take you back to Guttenberg. We are blessed with a bald eagle preserve on our stretch of the Mississippi. The limestone bluffs are a magnificent background for these symbols of our nation's strength. At times, their flight is sure and soaring; but it is not always so. As I have watched our community struggle these past six years against the powerful forces of New Federalism and the god of the free market philosophy, with the idea that government should be cost effective at the cost of being people effective, I have come to understand that the eagles do not always fly either for us or for the nation.

Thank you.

Testimony of

Bennie G. Thompson

Supervisor District Two
Jackson, Hinds County, Mississippi

Before the

Senate Agriculture Committee

United States Senate

April 7, 1987

Mr. Chairman and members of the Senate Agriculture Committee, I am Bennie G. Thompson, Supervisor of District Two in Hinds County, Mississippi. I have been an elected official in my community for the past eighteen years. Additionally I serve as President of the Board of Directors of the Housing Assistance Council, a National, nonprofit housing organization, which seeks to assist in the provision of housing for low-income families by providing technical assistance and seed money loan funds to rural development organization.

With respect to Mississippi's and Hinds County's economic conditions I simply say that many of President Reagan's policies could be detrimental to us. Fortunately, Congress has not followed the presidential budget, and has provided continuing funding for the programs that Mississippi needs so desperately: programs for health, social services, housing, and transportation. These programs have kept Mississippi from sinking further behind, but the funding levels have not let us make much progress.

-Infant mortality remains among the highest in the country.

-Teenage pregnancy remains among the highest in the country.

-Illiteracy rate remains among the highest in the country.

-Percent of people below poverty level remains the highest in the country.

-Percent of people below poverty remains the highest in the country.

Mississippi is hurt proportionately more than other states when any federal funds are reduced since we are further behind to start with.

As everyone knows, Mississippi rank 50th in the nation in per capita income. Our citizens were particularly hard hit by the recession a few years ago, and we have not recovered. Forty-three thousand jobs were lost in Mississippi during the past five years. Mississippi continues to rank in the top five (5) states in unemployment rates. Our future, too, is as bleak as our current condition. The potential of decent-salaried jobs is minimal when almost 50% of our adult population is without a high school education. 38% of students now in school will drop out before finishing high school. This is the highest dropout rate in the country.

As a member of both the Mississippi Association of Black Supervisors and the Mississippi Association of Supervisor I am often told by my fellow elected officials of all the horror stories associated with rural communities. Suicides, divorces, foreclosures, and bankruptcies are terms that until recently were virtually unknown in the rural communities of Mississippi. Now they are a commonplace as the sports section in our newspaper.

Just last week the president of two different banks located in the district I represent have expressed to me the need to locate jobs for our community.

Statistically speaking, Mississippi's unemployment averaged 11.7% in 1986. Over one-third of Mississippi's 82 counties had average unemployment rates over 15% in 1986. Personal income per capita was 30% below the national average.

Even with all of our problems we have attempted to address them in the following manner:

1. We continue to spend $20.13 per $1000 of Personal income on higher education. 28% above the national average.
2. We rank 12th in the nation in actual dollars spent per student for higher education.
3. Passed tax increases to build 1000 miles of four lane highway and to raise teacher salaries.

Mississippi's tax effort is very high. If you examine Mississippi's tax capacity, i.e. property valuation, corporate and personal income, mineral resources, you find that the state's capacity is about 70 percent of the capacity other states enjoy.

Mississippi's tax effort however, i.e. the revenue it actually collects compared to what it would collect if national average tax rates were applied to its income and other assets, stands at 95 percent of the national average. In other words, relative to other states, Mississippi makes an extreme effort to generate revenues from its own sources.

With the loss of federal dollars to support Mississippi's problems we are rapidly approaching and crisis situation. Local governments cannot continue to absorb the massive cuts and be expected to maintain the same levels of service. Day Care Centers, Mental Health Programs, solid waste collection, parks, housing, law enforcement, fire protection, and education continue to suffer because the bureaucrats would rather build a B-I bomber rather than feed the hungry or educate the young. Compassion should be in your hearts when you are talking about America's future. I have not seen it in the last few years but, I see our national debt has risen to 2.3 trillion dollars.

In conclusion, I want to say that my comments today are not what we ordinarily like to talk about either within or outside of Mississippi. I know it's not good public relation to state facts such as I have stated today, for we are a state in desperate need of good public relations and a better image. But at the same time, these are the facts and we cannot ignore them.

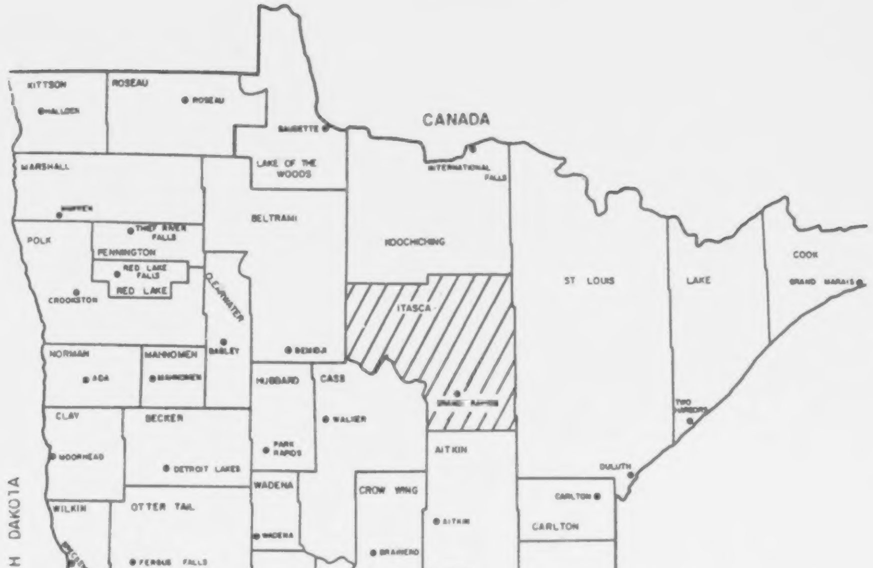
Unless you gentlemen act responsibly and move with programs that will save the rural communities of this country, will be a thing of the Past.

TESTIMONY OF

DARLENE A. VOBEJDA
ELECTED CLERK OF THE
TOWNSHIP OF BLACKBERRY
APPOINTED CLERK OF THE
CITY OF DEER RIVER, AND THE
ELECTED STATE DIRECTOR OF THE
MINNESOTA ASSOCIATION OF TOWNSHIPS

BEFORE THE
SENATE AGRICULTURE COMMITTEE
APRIL 7, 1987

MINNESOTA


CANADA
KITTSON
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MARSHALL
BELTRAMI
KOOCHICHING
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GRAND MARAIS
POLK
PENNINGTON
THIEF RIVER FALLS
RED LAKE FALLS
RED LAKE
CROOKSTON
CLEARWATER
ITASCA
NORMAN
MAHNOMEN
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BECKER
DETROIT LAKES
PARK RAPIDS
AITKIN
TWO HARBORS
DULUTH
CARLTON
WADENA
CROW WING
BRAINERD
WILKIN
OTTER TAIL
FERGUS FALLS
TODD
MORRISON
LITTLE FALLS
MILLE LACS
KANABEC
PINE
PINE CITY
GRANT
DOUGLAS
ALEXANDRIA
LONG PRAIRIE
TRAVERSE
STEVENS
BIG STONE
POPE
STEARNS
ST. CLOUD
BENTON
FOLEY
ISANTI
SHERBURNE
CAMBRIDGE
CHISAGO
CENTER CITY
SWIFT
BENSON
KANDIYOHI
MEEKER
ELK RIVER
ANOKA
WASHINGTON
CHIPPEWA
WILLMAR
LITCHFIELD
WRIGHT
BUFFALO
HENNEPIN
MINNEAPOLIS
RAMSEY
ST. PAUL
STILLWATER
LAC QUI PARLE
MADISON
MONTEVIDEO
MC LEOD
GLENCOE
CARVER
CHASKA
SHAKOPEE
HASTINGS
YELLOW MEDICINE
GRANITE FALLS
RENVILLE
OLIVIA
SIBLEY
GAYLORD
SCOTT
DAKOTA
RED WING
LINCOLN
LYON
MARSHALL
REDWOOD
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LE SUEUR
LE CENTER
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GOODHUE
WABASHA
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COTTONWOOD
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WATONWAN
ST. JAMES
BLUE EARTH
MANKATO
WASECA
STEELE
OWATONNA
DODGE
MANTORVILLE
OLMSTED
ROCHESTER
WINONA
ROCK
LUVERNE
NOBLES
WORTHINGTON
JACKSON
MARTIN
FAIRMONT
FARIBAULT
FREEBORN
ALBERT LEA
MOWER
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SOUTH DAKOTA ←|→ NORTH DAKOTA
WISCONSIN
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Page 1.

4/7/87

Blackberry Township an area 6 miles square, has a population of 627 people. Has a budget of $101,985 and a valuation of $3,380,485 in 1986. Blackberry provides for roads, bridges, cemetary, town hall, fire service, park recreation and library service.

I also work for the City of Deer River which has a population of 968 people and a valuation of a little under 3 million dollars and an annual budget of $718,243.36 . This small City provides, water, sewer, roads, parks, police, zoning, building inspections, .

LOCAL ECONOMIC SITUATION

Mining, wood products, tourism
Small business,
Schools, Youth leaving the area!
Senior Citizens, fixed incomes !
Jobs, vacant homes, farms,
Taconite industry,
Paper Industry,
Farming, land values,
Taxes on commerical properties,
Schools closing, impact on whole community.
Land owned by the Federal, State and County Government.
Less than 1/3 of all land owned by private people and part of the 1/3 is owned by the Blandin Company, Diamond match company and the mining companies.
Who provides the services and pays for the services to these Federal, State and County owned lands? The private land owners who pay taxes to the local, county governments who provide the services.

Itasca County land values

25% 10% Property values
Buildings

EDA Economic Development Administration.
Community Block Grant Program

Economic Development Districts

Taxes are high, Federal government, State Government, County Government, Township Government, School Districts.

Income Tax, Sales Tax, Realestate Taxes.

The nearest City to where I live has the Blandin Paper Company and the Blandin wood products company.

Yet in a radius of Grand Rapids there are right now listed for sale on the formal market 1,137 homes within 15 miles of where I live, the realestate people that I visited with said we don't even list farms, the value is so low. The value on the homes are very low and going down all the time.

On the Iron Range just 30 miles from where I live there are so many vacant homes it is just not comprehendable. Last fall when I campagined for the office of County Recorder I was shocked to see the numbers of empty homes.

If FHA forcloses on a property they put it back on the market for sale at much less than they amount they forclosed on. However they cannot sell it back to the people that were unable to pay for their home. This causes much hard feelings. You better believe it does!

CAUSES, WHY? THIS ECONOMIC SITUATION

It seems with the low cost of foreign ore, there is not a market for the taconite. Taconite as you know is low grade ore that is processed into high grade pellets. However, the taconite plants that hired the people gave them jobs shut down. No market for the pellets.

Jobs that kept the young people in the area are gone, the towns are like ghost towns.

Last fall as I said when I went house to house in Nashwauk, Marble, Pengilly, Taconite, Coleraine, Bovey; which are all mining towns really gave me the full picture of just how bad it really is. The young people have , only the retired and older people are left. They are worried.

The little town of Keewatin there isn't even a place or business where you can buy a lunch at noon any more. The businesses are empty, the doors are boarded up. A couple are made into living quarters. I had to drive five miles over to Nashwauk and they only have two businesses that serve food.

The young people have left to go where ever they can find jobs to work.

Farmers all over are down, we are not especially good farming because of the cool weather and fact we are far north.

In Blackberry where we live the two biggest farmers, both dairy people are closed down, lost their farms to the banks.

The interest was just too high to make the payments.
Small business try, yet its very hard with interest rates to get a small business going.
Another problem are the programs, if your broke, on welfare, out of drawing unemployment, down and out they will hire you on a program. The people in the area who have gone to school, have an education and come back to work, will apply for the same jobs and be turned down. They become angry and leave the area. Example, and this is real life, young man who went to Vocational School to become and DNR Technician, two year program and after worked in a school related program. Asked to be hired by the MN State DNR or the County Parks Program. However, again they had money from the State or Feds for work provided by programs so they have to hire those unqualified people who are either on welfare or down and out. The young fellow asked me one day what do I have to do to get hired, go on welfare. I have more education more experience, yet they hire the people without any qualification over me because he was on welfare. The Supervisor said because of the funding it has to be that way. The person with the right education and much more desire to work with, is turned down. They leave and go where they can find other work. This is an actual case I know personally.

GOVERNMENT, TOWN, CITY, COUNTY.

What does it mean to us to loose so many people. Its a sad state of affairs.

Every area has development corporations, all cities, counties and even townships belong to them trying to encourage businesses to come into our area.

Planning sessions, what to do, how to do it.

Everyone has industrial parks, areas of land to encourage the businesses to come. All areas work hard at seeing to the needs of small businesses.

When I talked to the Itasca County Assessor they tell me that land on the iron range is goind down in value on their records this years 25% in our area all buildings will go down 10% and what does this mean. It makes it hard it simply means one mill will generate less money for each area so the mill rate will rise.

Federal Revenue Sharing is gone. What does that mean less money for the city, township, and county. So unless they cut service they raise taxes. So again the tax payers are the ones who get hit hard. The county raises taxes, maybe the city and township also. So the tax payers pay more for the same service or pay more and yet the services are cut some.

Planning is necessary and budgets are necessary to make sure that alot of thought is put into what the small government really takes on to complete with the money they have.

One problem we see is the fact that State, Federal, monies are usually obtained by the larger governments, because they have more staff, more money to purchase grant writers, people who can do the work for them.

Small governments like ours depend on alot of volunteer people to write grants.

The smaller governments don't have the time to dig into the paper work to really know what is available to them.

WHAT CAN THE FEDS DO FOR US

We need jobs and we need funding to get jobs, low interest loan monies for small business to take out and expand or start.

We see most people very careful not to borrow so they just struggle along. Interest for the most kills the small business. It has taken out alot of the small farmers and larger ones as well.

Technical assistance, help for the small governments, the small business people to do what needs to be done to jump through the hoops to get the money to start a business or expand the one they have.

Too often the government is so caught up on what line to give an answer, fill out a narrative and so on than they are that the project really works.

Education is also needed so once they become a business they know how to operate and continue to be successful, changes are needed to keep up with the times. Changes are sometimes hard for most people.

JOBS! PEOPLE NEED TO WORK TO EARN A LIVING! JOBS! THATS WHAT WE HEAR FROM EVERYONE. WE NEED A JOB!

Fulton County Courthouse - 1903

James M. Everett
County Judge/Executive
FULTON COUNTY, KENTUCKY
2004 Bypass, Hickman, Ky. 42050
(502) 236-2594

Testimony of

James M. Everett*

Fulton County Judge/Executive

Before the

Committee on Agriculture, Nutrition and Forestry

United States Senate

On

DEVELOPMENT STRATEGY IN RURAL AMERICA

April 7, 1987

Washington, D.C.

*Elected two terms as County Judge/Executive as chief executive administrator in Kentucky's most western county on the Mississippi River with a rural population of 8,310, down from 15,197 in 1920.

WEST IS BEST
Commonwealth of Kentucky

G. C. Barnett
James Black
Roy Nethery, Sr.
Bill Parker

TESTIMONY OF JAMES M. EVERETT, FULTON COUNTY JUDGE/EXECUTIVE, BEFORE THE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY, ON DEVELOPMENT STRATEGY IN RURAL AMERICA, UNITED STATES SENATE, APRIL 7, 1987.

I. INTRODUCTION: Role and Economic Situation

A predominantly rural populace and agrarian economy has stood firmly as the staunch backbone of Fulton County, Kentucky's existence. Based on innovation and the finest farm land to be found in America, agriculture, and more specifically farming, provided a sound base.

Mechanizations; larger farm operations bringing a decrease in numbers of farms/farmers and laborers; and, currently the farm credit and marketing crisis of farmers has changed the face of our County. Not unlike the many similar areas in America, choices forced on our citizens have been to move to where jobs exist.

Industrialization was not readily accepted by our rural-thinking and agricultural-financed community. Leadership has struggled in seeking a harmonious relationship between agriculture and industry.

II. EFFECTS ON THE COMMUNITY:

During the past decade the community has suffered a **high rate of unemployment** (10.5 to 14% using the unrealistic, far- from-real unemployment statistics), with a **severe pocket of economic deprivation** far above the state and national average (per capita income in 1983 was $9,409.). **Population loss** is well documented as families are forced to move out of the area seeking employment opportunities. The **population is growing older** with Fulton County having the largest number of citizens over age 60 than any other county in the eight-county region of the Purchase Area. Likewise, we are among the lowest percentages in the young adult population.

Fulton County has one of the lowest educational attainment levels and one of the highest dropout rates nationally and in Kentucky.

A rapidly declining retail business district in the County Seat of Hickman; increasing numbers of dilapidated buildings; loss of community, business and governmental services; recent river trade declines; and, the lack of a thriving/growing economy in rural America have all dramatically threatened the very existence of our citizens!

III. EFFECTS ON LOCAL GOVERNMENT:

The loss of businesses, homes and people has resulted in a subsequent loss in government services, lowered tax collections, lack of new growth in tax base, no opportunities to increase revenues in pace with changing times/costs, inability to attract capable business-minded leadership in government, and, dominant defeated attitudes.

Pressures have forced us to seek a new revenue source locally, strip our programs of funds and personnel, reorder our priorities, and devise other ways to pay for required services and mandates.

IV. FEDERAL BUDGET POLICY EFFECTS:

Recent federal budget policies have added appreciably to a serious set of circumstances to spell catastrophic results to small, rural communities. The damage is negatively impacting local government services and revenues, and thus, local businesses, industries, landowners, homeowners and citizens.

For example:

a) the loss of $100,000 in Revenue Sharing funds represents 1/5 of Fulton County's general operations budget;

b) state and federal mandates impact small local government harder and quicker due to low finances, and the regulations are usually written for larger areas;

c) regulations on landfills, jails, ambulance services, and other government operations place insurmountable obstacles in the avenue of efficient, affordable operations for smaller entities;

d) a narrow definition and lack of adequate concern for rural America add to the depression.

Fulton County faced a forced closure of the Jail in 1984 due to federally-mandated state standards. The cost of correction: $660,000 to build a new minimum 23-bed facility. Our 20-year repayment of only 33% of the cost (our share, due to state grant for 67%) has forced us to **add new tax revenue for 1987.**

The lack of an assisting federal rural development policy for counties in such dire straits is hampering efforts and forcing many such counties and cities further into a dilemma near panic.

Funding had to be cut or eliminated last year for local development efforts, airport, transit service, senior citizens programs, ambulance services, law enforcement, disaster and emergency services, and youth.

V. COMMUNITY INITIATIVE LOCALLY:

Dynamic changes and regenerating forces are producing new VISTAS - revitalization efforts unprecedented in Fulton County! Piloted by a driving force of inner zeal, cooperative visions of the once-thriving river county are beginning a trend reversal breaking through imminently with forceful impact.

New and emerging leadership is gaining confidence and making great strides; local cooperative initiatives have dispersed the self-serving political and business "bosses"; an impressive series of notable accomplishments have developed a firm foundation for future development.

Goals to change are identified. Objectives for development efforts are quantified. Results are emerging. But, assistance is needed.

As a community elected leader, I have sought and received tremendous support and technical assistance from the Purchase Area Development District in our region and as a Board member of the National Association of Development Organizations (NADO) in Washington.

Development efforts spurring the recent local initiatives have included:

1) **buying and rehabilitating** the only **railline** spur and saving the community's only industry;
2) designation as Kentucky's only rural and first **Enterprise Zone,** a development tool of local and state tax breaks for economically depressed areas;
3) development of a professional **video**, community marketing tool;
4) **TVA's** Demonstration Project designation; which is funding a full-time **Economic Development Director** headed by a group of volunteer leaders;
5) Designation of $7.5 million for the **National Great River Road** through our county spurring tourism development, amenities, and local excitement.

With exciting encouragement from the **Economic Development Administration (EDA)**, locally we have been able to:

a) build an Area Vocational Training Center serving 3 school districts;
b) build a $1.5 million cargo loading/unloading facility on the river in one of only a few still water harbors along the Mississippi;
c) conduct a technical assistance study to lay the groundwork for $1.4 million to purchase and rehabilitate 51 miles of rail spur into our County.

The **Tennessee Valley Authority** has designated the Enterprise Zone portion of our county as a **PILOT DEMONSTRATION PROJECT** in development of rural areas, only 1 of 2 funded in the seven state area by the Non-power TVA Budget.

It is only through the assistance and planning of the Purchase Area Development District (funded by E.D.A.) that all recent local initiatives have been made possible!

VI. FEDERAL ROLE SUGGESTIONS:

1) Continue the support of regional Economic Development Districts (Area Development Districts in Kentucky) with increased funding they are a tremendous planning and project initiating/management agency of support to small cities and counties which we cannot afford;

2) Update vocational training facilities and programs in rural areas to keep pace with national trends;

3) Fund FmHA Section 111, a flexible technical assistance program with $15-25 million for "self-help" efforts locally;

4) Support G.E.D., adult upgrade, and other educational training to raise level of educational attainment and discourage school dropouts - this is a national concern;

5) Pass federal Enterprise Zone legislation;

6) Avoid tax legislation and policies shifting income and wealth to upper income people; i.e., social program cuts, unemployment levels, productivity levels;

7) Address the underemployment problems in rural America;

8) Fund Appalachian Regional Commission (ARC) and Economic Development Administration (EDA), as a minimum, at 1987 appropriation levels;

9) Reauthorize, at current funding levels, beyond 1987, the Community Development Block Grants (CDBG), Urban Development Action Grants (UDAG), Sec. 8 housing program, and Small Business Administration (SBA) programs;

10) Maintain 1987 appropriation levels for non-farm programs of the Farmers Home Administration (FmHA), including the water and waste disposal loans and grants, community facilities loans, business and industry loan guarantees;

11) Promote development of small business incubators to create jobs in rural areas for unskilled workers;

12) Maintain adequate transportation facilities to allow rural America to become competitive.

[Material submitted for inclusion in the record follows:]

STATEMENT OF THE
NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS
SUBMITTED FOR THE RECORD
TO THE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
OF THE
UNITED STATES SENATE
AT HEARINGS ON
RURAL DEVELOPMENT

Washington, D. C.
April 7, 1987

The National Association of Towns and Townships (NATaT)* is pleased to submit this statement to the Senate Committee on Agriculture, Nutrition and Forestry on a matter of extreme importance to the future of our country--the revitalization of rural America.

Rural America is much like the mythological step-child in our children's fairy tales--abused and forgotten, rarely critical, and patiently waiting for someone to take notice. Since the burgeoning of the Federal Assistance System out of the New Deal Era, rural America has all too often taken a back seat to the nation's rush to urbanize the American dream. With the rise of the national deficit and the onset of fiscal retrenchment, rural America is still waiting its turn. This hearing is an important step. We hope that it signals a new beginning for rural communities across the country--a time of hope that the national government is ready and willing to marshal its resources, scant as they may be, to find long-term solutions for the many problems facing our rural communities.

---

* The National Association of Towns and Townships (NATaT) is a non-profit membership organization offering public policy support, education services and technical assistance to over 13,000 towns, townships, and small communities across the United States; vital members of the federal-state-local government team. Surprisingly, these small governments represent the majority of all general purpose governments across America. Few people recognize that nearly two-thirds of all such governments represent populations under 3,000; NATaT member communities are typical of those governments and typical of the dedicated local officials who take time from their regular jobs to volunteer as a service to their friends and neighbors in the community.

RURAL COMMUNITIES HAVE REACHED THE BREAKING POINT

It is often said that the backbone of our nation rests in the fabric of our rural communities--these small towns and villages, townships, cities, parishes and counties. They range from midwestern agricultural communities, to New England fishing villages; from pacific northwest lumber towns to small resort communities in the southeast. Rural America has always produced a people of strong ethics, hard work, and loyalty to the national cause. It has been to these communities that our nation has turned in times of trouble--symbols of a strong, dedicated and caring America.

But the fabric of rural American life is coming apart at the seams. In a recent Kansas City Times article, a reporter wrote, "Rural Americans remain poor cousins to their urban counterparts, and the gap is widening...they are buffeted by economic forces beyond their control. Their infrastructure is crumbling--not just roads and bridges, but stores, schools and even political and social institutions. Small towns are fighting to regain control of their destinies, and rural America will never be the same again!"

Rural America is home to 63 million Americans. It stewards 90 percent of our nation's natural resources. In many communities, these natural resources form the basis of the local economy. But many of these industries--agriculture, mining, timber, fishing, the oil industry--have suffered from a serious economic downturn. High interest rates, falling land values, unpredictable foreign markets, and high production costs weighed against low market values have all led to the worst rural crisis since the depression of the 1930s. As anthropologist Janet Fitchen recently stated, "History is about to repeat itself. As these communities die, the entrenched poor remain. The have no stores, schools, or governments left. Today's agriculture problems are spurring another social upheaval."[1]

As farms and rural enterprises fail, our citizens lose their buying power. Farm implement dealerships go under, banks shut down, community retailers go out of business, and Main Street dies. The loss of the family farm or business is more than just a financial setback, it marks the loss of security, identity, and status as well as of the dreams and hopes rural Americans have for their children's future.

Research has shown that families forced off their farms and out of their businesses pull away from their communities and traditional community institutions. Forced into self-imposed exile, these individuals suffer internally, and many resort to domestic violence, and substance and alcohol abuse. Some find an end in suicide.

The breakup of traditional social and family structures places enormous pressures on public institutions--many of which no are left without the tools to respond. As land values continue to drop and people continue to migrate from these small communities, rural leaders have fewer resources to support essential capital services, let alone attempt to provide even the most basic of human care needs. The dwindling property tax base cannot sustain the growing demands of these troubled communities.

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[1] Joyce Barrett, Mending a Broken Heartland, Capitol Publications, Inc., 1987.

While the public tax rolls shrink, private financial institutions are faring no better. In 1985, 130 rural banks failed, the highest number since the great depression. At the end of 1984, farm debt stood at $212.5 billion, making the debt of American agriculture greater than the external debt of Brazil and Mexico combined. This growing debt is owed to not only rural banking institutions, but to many rural businesses--agri-businesses and rural retailers.

As businesses and farms fail, displaced workers often lack the skills and training to begin new careers--an ever growing problem. In fact, many rural unemployed have been off the rolls so long, they are no longer even counted in the unemployment measurement. For lack of a suitable living in rural areas, many are forced to migrate to larger cities thus placing a growing burden on municipal support services.

The communities they leave behind face overwhelming odds, as do their dedicated local officials. These part-time trustees and mayors are housewives, businessmen and women, ranchers, farmers, school teachers and grocery clerks, who for the most part volunteer their time and energy as a service to their friends and neighbors in the community. But there is little technical assistance and far too little financial aid to bolster their efforts. Many of these people "burn out" after months and years of struggling with the growing complications and demands of local government. Communities lose their valuable leadership and their leadership skills, and often that leadership capacity is not regained.

Without resources--human, natural and financial--these communities have little hope for the future. But there is much that can be done.

TAKING STOCK AND MAKING CHANGE

There was a time when the federal government did provide financial aid to these communities, but now more than 31,000 of the 39,000 local governments in the Untied States receive no help at all, since the death of the general revenue sharing program last year.

Revenue sharing is not the only loss our rural towns and small communities have suffered. Budget experts state that domestic spending has been cut by 37 percent--state and local governments taking a heavy toll in deficit reduction efforts. A chart printed in a recent National Association of Development Organizations (NADO) Nado News (see attachment) lists 64 programs in 1980 which provided a total of $36.9 billion in financial assistance. Although some of these programs were not exclusively rural in nature, they did finance projects in rural areas. In 1988, the 64 programs had dropped to 48 at a funding level of only

$12 billion. Funding for rural areas has been cut back by 85 percent.

While it is recognized that the federal government will not be able to replace this funding at the same level, there is a question of equity. Why should rural America take more than its fair share of the cuts? Surely our urban centers do not suffer any greater need than our rural communities. Congress and federal budget makers must take a hard look at the criteria they use in making their choices. No segment of the American public should suffer more than any other; restitution must be made to even the balance.

Economic development, community development and Department of Agriculture FmHA programs should be maintained, and should be funded at current levels at a minimum. We urge Congress to consider a targeted fiscal assistance program, with a formula which is sensitive to town, township and small community needs, and consequently does not rely on tax effort--since many of our rural communities provide services through unpaid volunteers.

We support programs similar to the concept, that you, Mr. Chairman, proposed in S.845, "The Rural Revitalization Act of 1987," and stand ready to help to gain support for your idea. Much can be accomplished through a rural development loan fund, providing technical assistance and valuable expertise to small communities. We applaud your approach because it recognizes the need to build upon local businesses, strengthening what presently exists, as opposed to attracting large corporations and industrial development parks.

MUCH THAT CAN BE DONE WITHOUT MONEY

NATaT has centered its economic development technical assistance programs much along the same lines as your proposal to rebuild existing businesses and concentrate on local opportunities. Through support from the economic development administration (EDA), we have developed a small town guide for local economic development and a video, called "Harvesting Hometown Jobs." These guides provide the technical "know how" for rural leaders and their business community to join forces to expand their local economy. The guidebook provides five options: 1) improving the community's ability to plug retail leakages; 2) helping small businesses to expand and creating additional local jobs; 3) attracting new basic employers, largely from service industries; 4) encouraging the creation of new businesses, including home-based businesses; and finally 5) increasing financial aid from other governments.

The book is written for rural leaders of small communities, and shows how they can organize and carry out effective job and revenue generating activities. Several communities are featured in the video form of "Harvesting"--the success stories of local leaders and community businessmen and women who have joined forces to create new businesses centered on local resources.

For example, Grundy, Tennessee has increased local job opportunities in the creation of the Marloe Wine Cellars, as an alternative to the county's long-time dependence on tobacco, a declining crop.

Floodwood, Minnesota has created new jobs in its new agriculturally-based company, Mat, Incorporated, started by a local entrepreneur. Now employing 30 area residents, the company transforms local peat and wood chips into sod and mats for animal bedding.

Starting such new businesses takes capital and a support network. Much can be done when these local entrepreneurs get together with local banking institutions and local elected leaders.

Projects such as "Harvesting Hometown Jobs" act as a catalysts to generate change. They provide the technical assistance so necessary to seek change. Most importantly, they build on local talent, expanding growth and leadership opportunities which stay within the community, building the communities' capacity to maintain its own self-reliance.

We believe that the federal government should continue to support such projects as our "Harvesting" program . We further believe that the federal government should finance more "hands on" help for rural communities; putting videos and materials, such as "Harvesting," to good use and helping to secure the change so necessary to the survival of rural America.

There are other ways in which the federal government can provide support for rural America without spending huge sums of money. First and foremost, the federal government should always consider the unique character of small governments when it develops regulations and new policies. All too often, federal policies are implemented with no thought to the capacity of rural governments--a community of 490 is assumed to have the same capacity as a community of 49,000. Local governments, despite their population levels, are commonly assumed to have, at the least, a staff, a payroll, a physical plant, computers, accountants, lawyers, engineers, funds at their disposal, and plenty of options in providing services, both in terms of what services they provide and how they deliver them. The fact remains that most rural governments have extremely limited resources, limited options--if any at all--and most are under state mandate as to what services they provide and how they may raise revenues.

In addition to this change in mind-set, there are other actions the federal government could take to help our rural towns and communities. Some suggestions are:

- Develop a method to build volunteer effort into federal formulas. Given the structure of federal funding formulas, small and rural communities are disadvantaged by the exclusive use of the "tax effort" factor, which does not recognize any value in the significant level of volunteer effort and "sweat equity" which supports government services in small towns.

  Volunteer effort is the driving force behind most small communities; if neighbor didn't help neighbor, basic services would not be provided. Are these any less valuable because they were accomplished at an expenditure of volunteer effort rather than tax dollars? Federal policy currently discriminates against volunteerism, one of America's basic values!

- Provide relief from federal mandates. There is precedent for exemption from Fair Labor Standards Act minimum wage requirements, for example, for small newspapers, for small radio stations, for small logging crews or for agricultural workers employed by operations with less than 500 man-hours per quarter. Small businesses are exempt from many mandates. Why not small governments? We need some help in looking at existing mandates, finding precedents in appropriate areas, and framing proposed legislative relief.
- Support for Highway Trust Fund formulas that fund off-system roads and bridges now that the Interstate System is mainly finished. Data is currently being generated through studies at the Office of Transportation at USDA at the request of the Senate Agriculture Appropriations Subcommittee. When that data becomes available, we would like to be able to analyze it and come up with some policy suggestions.
- Require more reporting of existing federal data. While the Census Bureau collects information from all small governments, it is not routinely compiled and published in usable form. Although numerous publications deal

specifically with "major" units of government, data is only presented for populations of 10,000 or more--or the top five percent--except in very limited instances. Obviously, this leaves out 95 percent of all general purpose governments in the United States.

- Redirect Extension Service resources to address economic problems. Extension itself has published its "Revitalizing Rural America" booklet as a response to assist in rural rebuilding. There is a direct correlation between the Extension Service proposal and our "Harvesting Hometown Jobs" program. We encourage support of the Extension Service initiative. And we hope Congress will direct the Extension Service to emphasize rural development issues in its agenda and throughout its technical assistance network.
- Decentralize state and federal governments. As authority is being returned to the states, the states should return to the grassroots. With advancing electronic communication technologies, we should be thinking about moving state agency functions out into the rural areas and "spreading the wealth." Finally,
- Require mandatory, across-the-board set-asides to direct a portion of every federal program to rural communities. The number in terms of dollars would not need to be large, because so much is accomplished with so little at local levels. Fairness dictates that

citizens of rural areas--who contribute the same percentage of their salaries in terms of state and federal tax dollars--receive the same percentage of benefits as do citizens of large cities.

CONCLUSION:

The National Association of Towns and Townships (NATaT) appreciates this opportunity to submit its views on this vital issue of concern. The revitalization of our rural communities--our towns, townships, small cities and villages, is crucial. It is crucial not only for the millions of Americans who reside in these communities, but also because rural America has been and will always remain vital to the future of our country.

Rural America looks to this Congress and to this committee in particular, for help. We applaud the step you have taken in scheduling this hearing, and we sincerely urge this Congress to meet the challenge ahead. Rural America needs your support today.

Thank you.

APPENDIX

MAY 5, 1987--HEARING

STATEMENT OF SENATOR PATRICK LEAHY
RURAL AMERICA: JOBS AND ECONOMIC REVITALIZATION
MAY 5, 1987

TODAY WE CONTINUE OUR EFFORTS TO MAKE THE SENATE COMMITTEE ON AGRICULTURE THE VOICE OF RURAL AMERICA IN THE UNITED STATES CONGRESS.

RURAL AMERICA IS HURTING. THROUGHOUT THE EIGHTIES, THE CHANGING GLOBAL MARKETPLACE CLOSED THE DOORS ON ECONOMIC GROWTH ACROSS RURAL AMERICA. SMALL MANUFACTURING PLANTS SUCCUMBED TO FOREIGN COMPETITION. THE OIL PATCH AND THE COAL MINE RAN OUT OF GAS. FARMS AND FARMERS DISAPPEARED.

IN THE LAST SEVEN YEARS, RURAL AMERICA SUFFERED AN ECONOMIC BODY BLOW FROM WHICH IT MAY NEVER RECOVER. JOBS ARE BEING LOST AND UNEMPLOYMENT IS RISING. IN JUST TWO YEARS, 1981-1983, WE LOST HALF A MILLION JOBS IN RURAL AMERICA.

BECAUSE THE TRADITIONAL EMPLOYERS OF RURAL AMERICANS MAY NEVER REGAIN THEIR PAST STRENGTH, OUR HOPE FOR THE FUTURE MUST DEPEND ON EXPANDING EXISTING BUSINESSES AND CREATING NEW ONES. BUT HERE TOO THE EXPERTS PROVIDE SOME GLOOMY NUMBERS -- FOR EVERY SEVEN NEW JOBS IN THE CITY THERE WILL BE ONLY ONE IN THE COUNTRY.

NO ONE UNDERSTANDS THE IMPORTANCE OF RURAL VALUES MORE THAN A VERMONTER AND MY HOME STATE IS FIGHTING HARD FOR ITS FUTURE. OUR TOWNS BROUGHT IN NEW BUSINESSES, OUR FARMERS DIVERSIFIED AND WE ARE FIRMLY A PART OF THE HIGH-TECH REVOLUTION. BUT VERMONT TOO IS SUFFERING AND WHEN I GO HOME I WORRY ABOUT OUR FUTURE.

LAST YEAR VERMONT HAD 300 MORE DAIRY FARMS THAN IT DOES TODAY. OUR MAPLE SYRUP INDUSTRY JUST HAD ANOTHER TERRIBLE YEAR -- OUR SECOND IN A ROW. HALF OF VERMONT'S ROADS NEED REPAIR AND MANY OF OUR TOWNS RELY ON SEWER SYSTEMS BUILT IN THE LAST CENTURY.

JUST LAST WEEK I WAS IN VERMONT TALKING TO VERMONTERS ABOUT THE NEED FOR A RENEWED NATIONAL COMMITMENT TO RURAL AMERICA. I SHARED WITH THEM MY HOPE OF INTRODUCING BIPARTISAN LEGISLATION TO HELP THE RURAL ECONOMY -- A SIX POINT PLAN TO REVITALIZE RURAL AMERICA. THE SUBJECT OF TODAY'S HEARING --JOB GROWTH AND BUSINESS GENERATION -- IS A MAJOR FOCUS OF THAT LEGISLATION.

WE MUST HELP RURAL AMERICA DEVELOP NEW JOBS. HOME-TOWN JOBS MUST BE HARVESTED, EXISTING BUSINESSES EXPANDED, AND NEW INDUSTRIES FOUND. THERE IS NO REASON WHY RURAL AMERICA SHOULD NOT HAVE A PIECE OF THE ACTION IN COMPUTERS, BIOTECHNOLOGY AND FINANCIAL SERVICES.

FIRST, WORKING CAPITAL MUST BE BROUGHT INTO RURAL AREAS. EVEN THE BEST IDEAS NEED START UP FUNDS. TOO OFTEN RURAL IDEAS FALL ON DEAF EARS IN THE BIG CITY.

SECOND, THE PRODUCTIVITY AND DEDICATION OF THE RURAL WORK FORCE IS UNPARALLELED. WHEN THE SKILLS OF RURAL RESIDENTS ARE NO LONGER MARKETABLE, WE SHOULD HELP TEACH THEM NEW SKILLS.

THIRD, THE INFRASTRUCTURE OF RURAL AMERICA MUST BE REBUILT. NEW BUSINESSES ARE NOT GOING TO COME TO PLACES WITH OLD BRIDGES, OLD ROADS AND DECAYING SEWER SYSTEMS.

FINALLY, AS AS WE GO ABOUT THE JOB OF REBUILDING RURAL AMERICA WE MUST NOT LOSE SIGHT OF WHAT MAKES LIVING THERE SO SPECIAL. WE MUST PROTECT THE RURAL ENVIRONMENT AND GUARANTEE ITS QUALITY OF LIFE.

TODAY'S WITNESSES KNOW THESE ISSUES WELL, AND I LOOK FORWARD TO HEARING THEIR IDEAS AND RECOMMENDATIONS.

SENATOR JESSE HELMS
RURAL REVITALIZATION HEARING
MAY 5, 1987

MR. HELMS. MR. CHAIRMAN, WE ARE HERE TODAY WITH ONE MUTUAL GOAL IN MIND, TO BRING LIFE AND ECONOMIC VITALITY TO RURAL AMERICA. TODAY, THE SPEAKERS WILL EMPHASIZE HOW IMPORTANT THE FEDERAL, STATE, LOCAL GOVERNMENT AND PRIVATE SOURCES ARE TO THE REVITALIZATION OF RURAL AMERICA. BUT HOW WELL IS THE FEDERAL GOVERNMENT HELPING RURAL AMERICA NOW? LET'S LOOK AT ONE OF THE GOVERNMENT'S LARGEST COMMITMENTS TO RURAL COMMUNITIES WITH A 50 YEAR TRACK RECORD, THE RURAL ELECTRIFICATION ADMINISTRATION.

THE RURAL ELECTRIFICATION ADMINISTRATION ACT OF 1936 WAS ESTABLISHED TO PROVIDE SUBSIDIZED LOANS TO RURAL AREAS WHICH WERE UNABLE TO OBTAIN LOW-COST ELECTRICITY FROM POWER COMPANIES AND MUNICIPAL ELECTRICAL FIRMS. AT A TIME WHEN ONLY 12% OF FARMS HAD ELECTRICITY, THIS WAS TRULY HELP FOR RURAL AMERICA. HOWEVER, IN THE 50 YEARS OF BRINGING ELECTRICITY TO THOSE IN MOST NEED, WE FIND THAT REA IS DOING MUCH MORE THAN HELPING RURAL AMERICA TODAY.

IF YOU ANALYZE THE LENDING HABITS OF REA YOU WILL FIND THAT TWO-THIRDS OF REA LOANS GO TO PROSPEROUS URBAN AREAS.

THE TOP 50 REA BORROWERS ACCOUNTED FOR APPROXIMATELY $1.2 BILLION OF THE TOTAL $3.5 BILLION REA FUNDS AVAILABLE OVER THE PAST FIVE YEARS. DO YOU WANT TO KNOW WHERE THESE RURAL AREAS ARE? -- SUBURBS OF WASHINGTON, D.C., ATLANTA, MINNEAPOLIS/ST. PAUL, NEW ORLEANS AND RESORTS LIKE VAIL AND ASPEN, CO., HILTON HEAD, S.C., AND ORLANDO, FL. -- ALL THIS IN THE NAME OF RURAL AMERICA.

WHEN 20% OF ALL THE REA UTILITIES RECEIVE 75% OF THE FUNDING, AND MOST OF THESE CAN HARDLY BE CLASSIFIED AS RURAL, WE'VE GOT A BIG PROBLEM. IF THIS HEARING ACCOMPLISHES ANYTHING FOR RURAL AMERICA, IT WOULD BEST SERVE THE NEEDS BY ADDRESSING THIS SERIOUS INEQUITY.

(The responses of Bob Bergland, NRECA executive vice president, to questions submitted by Senator Jesse Helms follow:)

NRECA NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION
1800 Massachusetts Avenue, N.W., Washington, D.C. 20036
Telephone: (202) 857-9500

June 24, 1987

Honorable Patrick Leahy, Chairman
Committee on Agriculture, Nutrition
and Forestry
U.S. Senate
Washington, D. C. 20510-6000

Dear Senator Leahy:

I am writing to submit my response to three questions which Senator Helms submitted to you after my May 5 testimony on rural revitalization.

I greatly appreciated the opportunity to testify before your Committee.

Please let me know if I can help you in any way.

Sincerely,

Bob Bergland
Executive Vice President

BB:vs

Enclosure

RESPONSES OF BOB BERGLAND
NRECA EXECUTIVE VICE PRESIDENT
TO QUESTIONS SUBMITTED BY SENATOR JESSE HELMS

Question #1: ACCORDING TO A STUDY BY REA, TWO-THIRDS OF REA'S DIRECT LOANS GO TO NON-RURAL AREAS. WOULD YOU SUPPORT TARGETING REA DIRECT LOANS EXCLUSIVELY TO RURAL AREAS?

Answer: Rural electric systems provide electric service to the most sparsely settled and difficult to reach areas of our nation. Rural electric systems average 5.2 consumers and $5,400 in revenues per mile of line compared to 31 consumers and $45,000 per mile for investor-owned utilities and 65 consumers and $79,100 per mile for municipal utilities.

The Administration has tried on several occasions to portray the rural electric program as something other than rural. They have failed because the facts do not support their assertions. Two examples of their efforts are as follows:

*March 1986: REA issued a report to all members of Congress which asserted that most of the agency's new loans were not helping rural areas. The key element of this study was an extremely misleading definition of "rural." The study defined rural based on the incremental density of a rural electric system, that is the new consumers per new mile of line. The use of incremental density instead of total density (consumers per mile for all consumers) presents a very distorted and misleading picture. By ignoring the total density of a rural electric system, the study was able to categorize as "non-rural" those very low density systems which add few new consumers and even fewer new miles. The study considered only those systems with incremental density of below 5.0 per mile to be rural (5-10 per mile was considered "medium density" and 10.0 and above "high" density). The use of 5.0 as a dividing line between rural and non-rural and 10.1 and above as "high" density was not plausible, particularly when compared to the average densities of 31 per mile for investor-owned utilities and 65 per mile for publicly owned utilities.

*March 1987: REA issued a new study which abandoned the concept of incremental density used in the March 1986 study. The new study sought to identify specific systems considered "urban/suburban". The new approach proposed to eliminate from eligibility for REA loans any borrower with more than 20,000 customers and more than 50 percent if its customers residing in any portion of a county within an MSA or CMSA with 100,000 or more people. A brief analysis of the 53 rural electric systems which fit these criteria indicate that:

- All have substantially lower densities than the average of 65 customers per mile for municipal electric utilities, and all but one -- a co-op in Alaska with a density of 35 -- have substantially lower densities than the average of 31 customers per mile for investor-owned utilities. In fact, 30 of the 53 rural electric systems have densities below 10 per mile.

- All except for 8 of the 53 systems have higher electric rates than their neighboring utility. The rate disparity among this group of 53 is as much as 46.1%.

- These 53 systems which would be denied future REA loans serve in portions of 372 counties -- 82% of these counties have lower per capita incomes than the national average.

With respect to the second portion of Mr. Helms' question on the use of a means test to target REA loans, I would like to offer the following comments:

> *Implicit in the suggestion of a means test is the unfounded charge that the fundamental nature of the rural electric program has changed. Rural electric systems serve about 10% of the U.S. population and 75% of the land mass. Rural electrics average 5.2 consumers and $5,400 per mile of line compared to 31 consumers and $45,000 per miles for investor-owned utilities, and 65 consumers and $70,100 per mile for municipal utilities.
>
> *Rural electrification is a national program. Its effectiveness is directly related to the fact that the Congress has never chosen to handicap it with a "means" test which would exclude some cooperatives and include others. This national unity has resulted in uniformity in accounting and engineering standards, plant design and specifications, and equipment among rural electric systems from one end of this nation to the other. If this unity were fragmented by a sensible sounding means test proposal, every rural electric system -- small and large, east and west -- would suffer.
>
> *The rural electrification program is based upon providing service at standard rates to everyone in a co-op's service area. This is the basic principle underlying the "area coverage" concept which is the basis of rural electrification. Cooperatives serve all comers -- rich or poor, black or white. That's our role. It comes with the territory. We are well-rooted in the area coverage concept. We will never "skim the cream" -- that is, serve only lucrative loads and abandon the unprofitable ones. However, we also object vigorously to those who suggest that if a cooperative is fortunate enough to serve a favorable load, it should be penalized by being denied REA funding. That's unfair.

*As a matter of policy, the federal government has decided to provide assistance to all segments of the electric utility industry -- cooperatives, publicly-owned utilities and investor-owned utilities. Investor-owned and municipal utilities are provided federal assistance -- tax breaks for investor-owned utilities and tax free bonding authority for municipals -- without any means test. A wealthy municipal or investor-owned system serving a densely settled or high income area is accorded the same assistance as one serving an economically distressed or low density area. If this is the case for investor-owned and municipal utilities, why should co-ops be subjected to means tests?

Question #2: IN LIGHT OF YOUR INTEREST IN EXPANDING THE SCOPE OF REA ACTIVITIES BEYOND PROVIDING ELECTRIC AND TELEPHONE SERVICE TO RURAL AREAS, WOULD YOU SUPPORT LIMITING REA LENDING TO CO-OPS SERVING ONLY RURAL AREAS.

As I stated in response to question #1, I do not support a means test for REA loan eligibility. Rural electric systems serve the most sparsely settled areas of the U.S. and in 72% of all cases have higher rates than their neighboring utilities. The strength of the rural electric program continues to be its unity. Furthermore, as a matter of policy, the federal government provides assistance to all segments of the electric utility industry -- in the case of investor-owned and municipal utilities this assistance is provided without any means test.

With regard to expanding the scope of REA, I think that the REA model -- a strong federal agency teaming up with local consumer-owned community based organizations -- is one that is tremendously successful and should be expanded upon. The federal-local community partnership has been a formula for success.

Rural electric systems can also provide a strong network of assistance for rural job creation and infrastructure development. In many communities rural electric systems are one of the few stable and strong organizations which can act as catalysts for development and advocates for their communities.

Question #3: PLEASE ANALYZE THE ADMINISTRATION'S PROPOSED LEGISLATION TO REFORM REA AND REPORT BACK TO THE COMMITTEE.

The Administration has consistently proposed either the elimination or drastic reduction of REA. These proposals have taken different forms, but are all directed toward the same end -- a termination of the successful partnership between REA and local rural electric systems.

We stand firmly opposed to all efforts to eliminate, phaseout, and drastically reduce REA. REA is and should continue to be the strong foundation upon which rural electrification is based. This nation will not be well served by abandoning REA. On the contrary we need an REA that is relentlessly aggressive in seeking solutions to the problems of our rural communities.

National Governors' Association

Bill Clinton
Governor of Arkansas
Chairman

Raymond C. Scheppach
Executive Director

STATEMENT OF

THE HONORABLE GEORGE A. SINNER

GOVERNOR OF NORTH DAKOTA

before the

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

UNITED STATES SENATE

ON

RURAL DEVELOPMENT

May 5, 1987

HALL OF THE STATES · 444 North Capitol Street · Washington, D.C. 20001-1572 · (202) 624-5300

Mr. Chairman and members of the Senate Agriculture Committee, I am pleased for the opportunity to be here with you today to discuss rural needs and issues as Vice Chairman of the Committee on Agriculture of the National Governors' Association.

North Dakota, like many other states, is predominantly a production-oriented state. It is a major source of new wealth in the United States. Farming and ranching generate a majority of the new wealth in North Dakota and in hundreds of communities in our state, some which are service centers for farmers and ranchers in surrounding areas. North Dakota has been one of the main reasons Americans are the world's best-fed people for the lowest share of earned income. But when agriculture in the United States suffers, the North Dakota economy suffers and the future of entire rural communities is jeopardized.

Historically, North Dakota has been largely dependent upon agriculture. During times of economic stability, this has provided economic stability for the general economy of the state. However, during times such as the Great Depression and the current agricultural crisis, the lack of diversification in the economy causes such crises to be carried through the rest of the state's economy. The same situation now exists in all states that have a primary dependence on agriculture.

To be sure, new income sources have been developed in North Dakota. During the late 1970s, the state's economy benefited from the growth in oil production in the Williston Basin. This oil activity brought jobs, economic activity, and, we thought, a measure of insulation from dependence on agricultural income. At the same time, our lignite coal resources began to be put to use through coal-fired electrical generating plants. The growth of the energy industry, coupled with an expanding agricultural sector, translated into a healthy, growing North Dakota economy.

But for the last six years, macroeconomic forces have literally decimated the American production economy. Federal borrowing, which prior to 1980 had never exceeded 2 percent of United States Gross National Product, has reached 6 percent. Heavy borrowing at all levels has pushed real interest rates and the dollar to all-time highs, and you know the rest of the story of lost markets at home and abroad.

Today, the North Dakota economy is reeling. Farm foreclosures and voluntary conveyances of farmland to lenders are at levels not seen since the 1930s. The state's economy demonstrated a compound annual growth rate of -0.4 percent from 1980 to 1983; the same indicator was at -1.5 percent for the 1983 to 1986 period. Industries directly related to agriculture have been especially hard hit. Employment in the wholesale farm machinery business, for instance, dropped from 3,384 jobs in 1981 to 2,452 jobs in 1986, a drop of more than 27 percent.

And when the citizens are facing tough times, government faces challenges. I cut my predecessor's budget by huge amounts when I took office in 1985. The budget that I recommended to the 1987 North Dakota legislature was the first in modern times to be smaller than the previous budget. Yet, in order to balance the budget, the legislature was forced to shift tax revenues from flagging energy and other production sources to more general revenue sources. This year, 25 states have had to raise taxes and 19 states have less revenues than last year. These are unprecedented figures.

What caused such a dramatic reversal of fortunes for production states? Quite obviously, we in agriculture and in other production components of the economy were deceived about some of the ramifications of so-called "inflation stopping" and supplyside economics. We failed to see that United States economic policies of the past decade would become a major source of income instability and resource misallocation, causing financial stress to agriculture as well as other rural industries.

Macroeconomic policy has placed agriculture on a roller coaster ride, and, in fact, has caused the same sort of problems for other rural and non-metropolitan industries. Energy, farming, forestry, mining, and manufacturing have all suffered. The irony of this is that at a time when farmers and ranchers are dependent on non-farm income to survive, the mainstays of employment in these regions of the country face the same set of problems as agriculture.

The principal problem is high real interest rates caused by seemingly uncontrollable federal budget deficits. The concern for increased military power and the desire for lower taxes were so great that their proponents were willing to risk large federal budget deficits. The large deficits combined with monetary policy to restrain inflation led to dramatic increases in real interest rates. High real interest rates attracted dollar investments from abroad, raising the foreign demand for dollars relative to supply and driving up the value of the dollar in the international exchange. This made imports into the United States cheap, and goods from the United States more expensive for domestic and foreign customers alike.

Since World War II, many industries have moved from urban to rural areas to reduce labor costs and remain competitive with imports from developing nations. Textile mills and shoe factories moved from northeastern cities like Lowell, Massachusetts, to Greenville, South Carolina, and Cairo, Missouri. Even mail order companies such as Lands End relocated from Chicago, Illinois, to Barabou, Wisconsin. However, the high dollar of the 1980s has destroyed the competitive advantage of many of these industries, such as the sunflower crop. In today's world economy, the movement of capital has little regard for national boundaries. Capital markets are clearly international. Their operation is producing a new international division of labor in which the production of goods -- especially labor intensive production processes -- is being shifted from advanced industrial nations, such as the United States, to less-developed and nearly developed nations. Nowadays, the migration of business is into Taiwan, Korea, Yugoslavia, Argentina, and Brazil. As a result, many traditional rural industries are struggling to compete under the harsh economic conditions of the 1980s.

But agriculture, perhaps, has borne the brunt of these economic policies.

High interest rates directly affected the costs of agriculture, a capital-intensive business. Variable interest rates have made the shock of such increases on individual producers' cash-flow almost instantaneous. Foreclosures, insolvencies, reduced returns to farmers, and depressed farm prices have devalued that most basic asset of agriculture -- land.

When the farm export boom began, we did not fully understand the forces accounting for the export markets. Farmers and agribusiness found it easy to accommodate the growth aspects of this development. We intended to bask in the notion that this growth was due largely to Yankee ingenuity, technology, and hard work. We didn't realize that the impact of exchange rates, population, income growth, and recycled oil revenues in other countries, played a major role as well.

The strong dollar has added a hidden tax to purchasers of American agricultural products. The result has been an incentive for domestic and foreign consumers to go elsewhere for purchases of agricultural commodities, and the strong dollar has been an incentive for foreign competitors to produce more to realize higher prices and fill the demand. Even the United States has become a net importer of agricultural products -- a previously undreamed of phenomenon. High real interest rates have triggered financial crises in several developing countries, forcing them to cut back on imports of American farm products. The result for American farmers has been drastically reduced exports, depressed farm prices, low farm income, and excess capacity. The result for states such as North Dakota has been reduced personal income. A recent study indicated that the drop in wheat exports resulted in a loss of more than $300 million in personal income to North Dakota annually.

A prime example in North Dakota has been the sunflower industry. Sunflower acreage exploded from 127,000 acres in 1970 to 3.3 million acres in 1979. As the acreage expanded, crushing facilities were developed to add value to the commodity and to provide jobs in rural communities. But, the policies of recent years have forced this industry to its knees. A plant in Velva, North Dakota, has closed and another is concerned for its future.

The strong dollar and international debt have virtually eliminated the Mexican market, previously one of the major markets for sunflower oil. The competition of palm oil, cheap because of exchange rates, has been devastating to both domestic and foreign markets.

The European Economic Community currently guarantees a price of 25 cents per pound for sunflower oil, more than three times the current world price of 7.5 cents received by the North Dakota farmer. Furthermore, EEC surplus oils are being sold at less than world market prices, driving America out of North African markets.

And, because there is no government support such as a loan rate or deficiency payments, the price paid to the farmers for sunflowers is forcing them to look for other crops. This year about 1.2 million acres will be planted in North Dakota, less than half the acreage of 1979. These reduced acres further jeopardize the viability of the crushing industry.

North Dakota has a major stake in an improvement in the macroeconomic policies that affect the productive sectors of our economy, especially agriculture. But, the problem is that when the recovery comes we will have lost farmers and communities that will not be replaced. A recent study conducted by North Dakota State University indicated that 45 percent of the farmers who have left farming for reasons other than retirement during the past five years, have left their home county. The implications for many of North Dakota's rural communities are obvious -- jobs are scarce, and with a declining number of residents, the future prospects are difficult at best.

Despite the general economic conditions of the state and the resulting revenue problems for state government, North Dakota has moved to respond to the challenge facing rural areas.

An array of programs to assist struggling farmers has been put in place. These include farm credit counseling for those facing financial difficulties, legal referral and assistance for farmers and ranchers, financing programs through the Bank of North Dakota, and job training and assistance through Job Services.

The financing programs for farmers include a real estate debt restructuring program negotiated in early 1986. This program has served as a model for a districtwide debt restructuring program in the St. Paul District of Farm Credit Services. Other efforts include interest buydowns on operating loans and interest buydowns for homesteads. The 1987 legislature implemented a new lending program for a variety of intermediate and long-term credit needs, and also provided farmers with the right to separately redeem the parcel of land that includes the home in foreclosure cases.

North Dakota's Job Services has developed a variety of responses for those who are attempting to supplement farm income with non-farm jobs and for those who are in transition out of agriculture. About seventy Job Information Centers have been opened in rural communities to provide better access to the available services. Federal funds through the Department of Labor have been used for a program of retraining for dislocated farmers. (Unfortunately, the funds have fallen short of the need. Job Training Partnership Act funds have been targeted for training for employees of new business and industry. An entrepreneurial training program has been implemented by the Dickinson Regional Employment and Training Committee to benefit an area of the state hit by both agricultural and oil problems.

We have made a commitment to stimulate growth in rural parts of our state. The Economic Development Commission received virtually the only agency budget increase in the 1987 North Dakota Legislature. One project currently underway will identify potential new crops and new agricultural processing opportunities for the state, and result in the development of a strategy to implement these types of agricultural development. Federal procurement is the focus of another effort to assist state businesses in increasing North Dakota's share of federal contracts. (North Dakota currently ranks 49th in the nation in its share of these contracts.) Successful former North Dakotans are being targeted as resources in attracting business and other industry to the state. North Dakota's recreation potential will be highlighted through increased promotional efforts of the Tourism Division. The implementation of a venture capital fund and a risk capital pool through the Bank of North Dakota should prove to be beneficial to new businesses and industries in the state. An office in Japan is currently being developed as a public-private effort to target the Asian Rim, with the goal of stimulating joint ventures in North Dakota.

Since the state of North Dakota assumed administration of the Community Development Block Grant (CDBG) program in 1982, the program has been directed toward communities of under 5,000 population. These funds have offered an opportunity to the state to stimulate economic development in rural communities. However, with cutbacks in other federal programs, these funds have received many more requests than can be handled.

Through these and many more efforts, we have aggressively made the economic development of our state, especially the rural areas, a priority. North Dakota citizens are renowned for their work ethic -- a fact known by those in other states who have hired them. Yet, not so well-known is the fact that North Dakotans are a well-educated group, with the lowest high school dropout rate per capita, the highest number of National Merit Scholars per capita, the highest number of high school graduates per capita, and more of these graduates going on to public institutions of higher learning per capital.

Great Plains Software Inc., a company based in Fargo, North Dakota, is an example of the potential which exists in rural areas. In six years' time, the company has grown to be one of the country's leaders in producing and marketing accounting software. Great Plains has about 140 employees and does business nationwide, with less than 1 percent of its sales in North Dakota. The president of the company, Doug Burgum, indicates that the main resource necessary to start a successful business is ideas, and ideas come from people who are bright, educated, and creative. His publicly stated view is that North Dakota is a prime place for innovative business.

North Dakota has the human capital necessary for rural development, and state government has made major investments to retain these people in our rural areas. However, state government cannot do the job alone.

If agriculture and the other productive sectors are to compete in a global economy, they must have the ability to play on a level playing field. The productive sector needs the benefit of export subsidies. The form that these takes is beside the point -- recognition of the problem and assistance from the federal government is necessary. The federal government takes a variety of steps for the benefit of society in general that have a direct negative affect on production. These new, positive actions can take the form of fiscal and monetary policy, trade policy designed to "punish" other countries such as the Soviet Union, or regulations regarding pesticides, antibiotics, or other agricultural inputs.

The difficulty for the productive sector arises in attempting to compete with other foreign currencies that may be manipulated by their governments, or to compete with other countries that have full trading relations with countries such as the Soviet Union, while other countries may be allowed to import into the United States products that have been produced without environmental, health, or other social costs that are imposed on United States producers.

Rather than mouth "Free Trade" euphemisms, the federal government must take actions to eliminate these inequalities that hinder the competitiveness of the American producer and threaten the free enterprise system as we know it.

Recent federal policy has attempted to focus on economywide measures, such as fiscal, monetary, and international trade policy to stimulate economic development. Such efforts at addressing these problems are extremely important, but so far they have not benefited much of rural America.

We need to maintain a strong defense as well as a good offense. That is, those who implement federal monetary policy must continue efforts to bring the dollar's value down against many of our major trading competitors, while implementing plans to stabilize exchange rates internationally over the long haul. We must defend our productive-sector while continuing efforts to break down tariff and non-tariff barriers, and we must prepare our children for work in a global economy while assisting our dislocated workers through worker readjustment programs.

The federal government must also play a key role in providing productive sector assistance where the failure of firms, businesses, and farms reduces personal income. Action must be taken to maintain past investments in roads, water systems, education, hospitals, and other infrastructure of rural areas. The Farm Credit System must be strengthened to assist states in their debt restructuring efforts.

In addition, unemployment funds in states have been hard hit by the trauma of global economic policies. As agriculture and the other components of the productive sector have suffered, these funds have been depleted by increased demands by those who have lost jobs. State governments are left with the dilemma of addressing the needs of the unemployed. The new worker adjustment programs being considered by Congress could provide states with important resources to address these problems. States, however, must retain flexibility to design program delivery systems that will address the unique needs of each state. Supplemental federal funds should be provided to aid states that have unemployment fund problems that have resulted from macroeconomic policies, perhaps specifically aimed at the ten or fifteen states most hard hit by policies over which they and their people have no control.

At the same time, federal expenditures on small business assistance, on community development, and on regional and local economic development have been trimmed. Federal programs such as Urban Development Action Grants, Community Development Block Grants, and the Economic Development Administration have experienced major budget cuts since 1980, and the President continues to press for termination of the Small Business Administration, Economic Development Administration, and Urban Development Action Grant.

Federal rural development efforts have followed the same pattern. The Community Development Block Grant small cities program is scheduled for reduction. The Farmers Home Administration programs for community and economic development have been cut sharply and are targeted for elimination.

The United States Department of Agriculture Office of Rural Development Policy has been closed.

Targeted economic assistance by the federal government should exhibit the following characteristics:

1. It must be flexible, aggressive, and responsive to change.
2. It must be cognizant of market forces that prevail and influence ultimate successes.
3. It must be structured to provide for local community leadership in the determination of what is needed.
4. It must recognize and target long-term needs of rural areas; and as a result represent a long-term investment and commitment on the part of the federal government.
5. It must be based upon a cooperative approach to rural development to allow for the leveraging of state and local resources to develop and protect rural community economic bases.

Current federal programs are not flexible enough; in fact, they hamstring activities. These programs should facilitate rural economic growth by providing management assistance to rural businesses and governments, marketing assistance to rural businesses to become fully integrated into the global economy, financing mechanisms that allow for start-up and expansion of rural business and industry, and funding to provide for the maintenance and construction of the necessary physical infrastructure. The states are ready and able to provide most of these efforts with more federal flexibility and some financial incentives.

Financial assistance is most appropriately provided through a system of matching block grants provided to state governments. State governments are best suited to manage the ultimate use of these funds, because state government is actively involved in developing strategies for economic revival and expansion. The needs of states are varied and diverse. Such a mechanism would allow for the tailoring of rural economic revival activities to best meet the needs of a particular state or region.

In summary, the economic policies that have been carried out by the federal government have been aimed toward providing an overall economic improvement for the United States The well-being of rural areas of this country has been sacrificed in the process. Agriculture is in the midst of economic conditions not seen since the 1930s. Rural businesses and communities dependent on agriculture have been devastated at the same time.

At a time when rural development activities are crucial to rural areas of Americans, there has been a retreat from these types of initiatives by the federal government.

We must, first, recognize that there are needs of rural areas that are not being adequately addressed, because of the limitations of local and state funds. An alliance between local leadership, state government, and federal government must be forged to deal with the urgent needs of rural areas of this nation. Coordination and cooperation between the state and federal entities working for the development of rural areas is necessary, if we are to succeed in revitalizing rural America.

Gentlemen, I appreciate your consideration of these ideas. Are there any questions?

Toward a New Rural Economy

Testimony of Robert B. Reich

Harvard University

Before the Senate Committee on Agriculture

Mr. Chairman and Members of the Committee:

My name is Robert B. Reich. I am a professor of political economy at Harvard's John F. Kennedy School of Government, where I teach courses on public policy and economic development.

This morning I'd like to take a broad look at the problems of rural America, and suggest a framework for responding to them in the years ahead. My aim is to sketch some possible ways in which the federal government can build more diverse and vibrant economies in areas that have been particularly hard hit by world economic events during the 1980s. The strategies I will outline are long term, designed to assist rural America in managing a fundamental economic transition. They are not intended to replace shorter-term initiatives that address immediate hardships facing rural Americans.

Behind the immediate crises in agriculture, oil, and other rural industries lies a fundamental problem that affects all Americans: America is in danger of becoming a bi-coastal economy. Vast stretches of rural America are now occupied by people who are unemployed or underemployed; some of rural America is in the process of being vacated. The trends are inescapable:[1]

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[1] These data are gleaned from Census Bureau, U.S. Department of Commerce (Washington, D.C.: United States Government Printing Office, various series); 1986 Agricultural Chartbook, Department of Agriculture (Washington, D.C.: United States Government Printing Office, 1986).

--Between 1981 and 1985 California and 15 East Coast states had an annual growth rate of 4 percent. Growth in the rest of the nation lagged far behind, at 1.3 percent.

--America's "heartland" states, with 58 percent of the population, experienced only 31 percent of the nation's share of economic growth during this period. The coastal states, with 41 percent of the population, experienced 69 percent of the growth.

--Even within America's "heartland," rural areas are significantly worse off than metropolitan areas. Since the late 1970s, rural unemployment has been higher; housing starts, fewer; family incomes, lower.

The reasons for these trends are complex. One primary culprit has been the broad decline in world prices of primary commodities during the past decade. America's rural economy has been a commodity-based economy--centered on agricultural and raw materials. Thus as world commodity prices have declined, rural America has been left in the lurch.

Progress in the technologies of food production around the globe--the so-called "green revolution"--has dramatically increased the capacities of many nations to feed themselves. Global agricultural output rose almost one-third between 1972 and

1985. India is now self-sufficient in grain. Pakistan is almost self-sufficient. Argentine wheat production has nearly doubled in the last ten years while Thailand's output of feed grain nearly tripled. Many third-world countries have gone beyond self-sufficiency and begun to export their surpluses.[2]

Agricultural production has also increased significantly in Europe. In the mid-1970s, the European Community imported about 25 million tons of grain, a fifth of world trade. Ten years later the European Community is exporting 16 million tons. Thus over the last decade the annual size of the world grain market available to the United States has declined by 41 million tons. Such an overwhelming abundance around the globe also has allowed grain-importing nations, like the Soviet Union, to diversify their sources of supply, and thus take advantage of the new competition.

At the same time, global output of forest products, metals and minerals have increased about 30 percent during the last ten years. As with the "green revolution," the largest increases in production have occurred within the third world. With the collapse of the OPEC oil cartel, oil prices too have substantially declined.

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2. Data from Barbara Insel, "A World Awash in Grain," Foreign Affairs (Spring, 1985), and from the Economic Report of the President, 1987.

Not surprisingly, America's shares of world primary commodity markets have dropped precipitously. All told, the American agricultural sector registered a $20 billion trade surplus in 1981 by exporting $38 billion and importing $18 billion; but by 1986, U.S. exports of agricultural products plummeted to $21 billion while U.S. imports reached an all-time high of $25 billion. Over the last decade or so, the United States' share of world cotton production has fallen from approximately 19 percent to about 16 percent; our share of world copper production from about 19 percent to 13 percent; meat production from over 31 percent to about 28 percent. The list goes on.

Other nations have protected themselves from American exporters of primary commodities, to be sure. But protectionism has been more the consequence than the cause of America's problems in world commodity markets. As output has increased worldwide and prices have declined in tandem, there has been an understandable temptation in every nation--including our own--to preserve and protect at least the home market. In any event, it is doubtful that American commodity exporters would benefit much, if at all, were nations like Japan to remove its barriers to primary commodities; exporters from Australia, Argentina, Thailand, and Canada, among other nations, would fill most of the breach.

The high-flying dollar also played a role between 1982 and 1986, pricing American commodities out of many world markets.

But even without the dollar handicap, American commodity exporters would still have faced shrinking world markets. Now that the dollar has fallen sharply, the export situation has not substantially improved.

What is the long-term response to this fundamental economic shift? What should we do to help rural America?

The first step is for us to make a political and social decision. How much do we value rural America? To what extent do we as a nation wish to maintain economic vitality in those parts of America where our population is more widely dispersed? Is there a public benefit in such dispersion? Is there a special, additional benefit to all of us in the social values embodied in rural America? If our collective answer to these preliminary questions is "no," then our only challenge is to ease the transition for millions of American families off the land, out of rural America, and into major metropolitan areas, particularly into our coastal megalopolises. This, after all, has been the demographic trend for most of the century. Many policy analysts and economists, wedded to the magic of the marketplace, would urge just such a transition.

I believe we need an economically-healthy rural America. But the way to revitalize our rural economy is not simply to preserve primary commodity production, nor to throw public money in the direction of rural America. Our long-term challenge is to ease the transition of our rural economy out of an almost exclusive reliance on primary commodities and into more competitive, more flexible, more specialized production.

As the global output of primary commodities has increased, advanced nations have added value both through the application of specialized information, and through small-batch specialty manufacturing. This twin shift has been apparent in every industry. For example, most of what Americans spend for the food on their tables now goes for processing, packaging, and marketing. Most of what Americans spend for the cars they ride in or the clothing they wear goes for design, engineering, fabrication, and advertising. The same can be said for paper products, specialized chemicals and materials derived from oil, and so on.

Much of the growth in so-called "services" within the American economy is actually attributable to smaller information businesses specializing in sales, marketing, design, advertising, engineering, finance, and consulting of all types. Almost all of the growth in American manufacturing during the past few years has been in small-batch businesses aiming for specialized markets. These two types of businesses--information services and small-batch manufacturing--account for an ever greater share of the value added to primary commodities.

Indeed, since 1970 the average size of American businesses has declined: The percent of American businesses with less than 100 employees rose from 49.5 percent in 1970 to 56.1 percent in 1983, the last year for which data are available. This trend has held even for firms involved directly in manufacturing; while overall manufacturing employment has declined in America, the level of employment in establishments of less than twenty employees has actually increased.[3]

The dilemma for rural America is that these specialized smaller businesses have grown in and around our largest coastal cities, leaving the rural American economy wedded to primary commodities. As the relative value added by primary commodities has declined, so too has the rural economy.

Thus any long-term strategy for reviving America's rural economy must encourage a transition from an almost exclusive reliance on primary commodities to information-based services and small-batch manufacturing. This transition is not as difficult as it may at first seem. Rural America has many assets--relatively low land prices, low congestion, clean air, a strong rural work ethic, a system of high-quality universities, among other things.

Given these assets, why hasn't rural America shifted more

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3. C. S. Harris, N. O'Connor, and K. Kummil, "Handbook of Small Business Data: A Sourcebook and Guide for Researchers and Policy Makers," (Washington, D.C.:Brookings Institution, January, 1983).

easily out of primary commodities? The problem is that certain impediments have made it difficult for rural America to take advantage of its assets. A strategic approach to rural economic development would thus concentrate on removing these impediments.

Let me offer some examples of where such a strategic approach to rural economic development might focus its resources:

--Rural transportation. Both specialized information-based businesses and small-batch manufacturers can be geographically distant from their suppliers and customers customers--so long as they can reach suppliers and customers quickly and communicate with them easily. Thus today, perhaps more than ever before, an efficient system of rural transportation and communications is critical to economic development.

A century ago the railroads spurred the development of rural America. For the past quarter century the interstate highway system has provided a major stimulus. It continues to do so. For example, General Motors' recent selection of Spring Hill, Tennessee, for its new Saturn division factory was prompted in large part by the town's easy access to the interstate system. Similarly, the recent economic rebirth of Cuba, Missouri was aided by access to a major state highway linking it to the interstate; Cuba also enjoyed daily rail and freight service.

But the interstate highway system is aging, it fails to reach many rural areas, and alternate modes of transportation are often unavailable. In addition, rural counties and states cannot shoulder the costs of improving their own transportation systems by themselves.

The deregulation of surface transportation has in many cases hurt rural areas. Railroad spurs have been terminated. Bus service has declined. When the Interstate Commerce Commission began deregulating bus lines in 1982, Greyhound promptly announced plans to drop service to 1,100 rural locations; in 1986 Greyhound announced plans to close half of its remaining company-owned depots. As deregulation has stimulated competition on previously profitable routes, it has forced regional bus lines to terminate unprofitable service to many rural areas. A recent study showed that 94 percent of the communities whose bus service was terminated following deregulation had populations of less than 10,000 perople. The researchers found that "these very small communities were also typically not served by either scheduled air service or passenger rail. Thus, while terminations did not fall solely upon the smallest communities, they were clearly the hardest hit by terminations."[4]

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[4] C. Oster and K. Zorn, "Impacts of Regulatory Reform on Intercity Bus Service in the United States," Transportation Journal (Spring, 1986).

The 1987 highway act is a step in the right direction. But the funds it will provide are aimed primarily at making existing transit services more efficient, not significantly expanding services. The federal government currently spends $28 per capita in mass transit funds for residents of our major urban areas, but only $1 per capita on public transportation for America's rural population.

--Rural communications. The increasingly easy availability of low-cost information processing and transmitting equipment has made it possible for specialized information businesses and for small-batch manufacturers to communicate easily with suppliers and customers, wherever they are located. Computerized information banks are allowing such businesses to tap into the latest technical knowledge regardless of where it's located. Satellite receivers and video-cassette players are bringing instructional and vocational programs to remote areas. An estimated 7 million Americans already "telecommute" to their offices using computers, telephones, and computers. All this portends well for rural America.

But rural America may be at a relative disadvantage in using some of these new communications technologies. The highways of the future are likely to be fiber-optic cables--which permit a level of high-quality, low-cost transmission of large quantities of data unimagined ten years ago. Although communications companies have begun stringing fiber-optic networks across the nation, these networks are centered around major cities. There has been no concerted, national strategy for bringing fiber-optics to rural America. There is also reason for concern that the deregulation of telecommunications in general will lead to higher telephone service charges for rural users relative to urban users.

--Rural technology extension. Specialized information businesses and small-batch manufacturers often must incorporate the latest technologies in order to stay competitive. But it can be difficult for businesses in rural locations to quickly discover what these technologies are, and how they can be used to greatest advantage. Years ago, the Agricultural Extension Service was established to make farmers aware of the latest technologies and to help them make use of them. Today, rural America's impending shift to specialized information businesses and small-batch manufacturing requires similar help.

As with the Agricultural Extension Service, state universities can serve as hubs for technological extension. Some are already beginning to undertake this function. For example, the University of Texas is establishing a computer network that will enable country doctors to quickly obtain medical expertise and gain access to medical records. In Tuscaloosa, Alabama, the University of Alabama has made a deal with General Motors and the United Auto Workers to save a carburetor assembly plant; the University has leased a portion of the plant for use as an on-site instructional and research center. Within its first two years, this arrangement has yielded annual savings exceeded $1 million. The University has since established other cooperative ventures with firms in Tuscaloosa and Birmingham.

Other forms of technological extension are no doubt possible and desirable. The federal government, working with and through state universities, could enlarge upon this important concept.

--Rural training and retraining. The work ethic of rural America is legendary. But this ethic can only be put to work if rural Americans receive the education and training they need to meet the demands of the new economy.

Efforts are beginning. Twenty-one farm states now consider farmers "dislocated workers," rendering them eligible for job counseling, retraining, and relocation help under the Job Training Partnership Act. So far, about 15 states have helped several thousand bankrupt or dislocated farmers. In Iowa, about 60 percent of nearly 500 retrained farmers have landed jobs as word processors, programmers, engine mechanics, salesmen, and assembly-line workers.

But given the scale of the shift that must occur across rural America, these efforts are not enough. The need and the will to work among rural Americans is clear. (Within three days of posting new positions, a Joplin, Missouri trucking company had over 500 applications from unemployed farmers.) Present training and retraining are inadequate to respond to this need and tap this will.

In this brief testimony I have stressed only four out of several impediments to the shift of rural-America from primary commodities to small-batch manufacturing and specialized services. These impediments should be understood for what they are--impediments. The underlying potential is there for a strong and vital rural economy. The government responses I have suggested--improved transportation, communications, technological extension, and training--are hardly dramatic. None requires vast sums of new money. Indeed, a program to revitalize rural America would likely cost substantially less than the sums now spent seeking to preserve the older economy, based almost exclusively on primary commodities.

Over the longer term, our choice is clear: we must either accept the gradual demise of rural America, or ease its transition to a new economy.

Statement
of
Bob Bergland
Executive Vice President
National Rural Electric Cooperative Association
before the
Committee on Agriculture, Nutrition and Forestry
United States Senate
on
Innovative Development Strategies in Rural America
May 5, 1987
Washington, D.C.

Mr. Chairman and distinguished Members of the Committee:

It is my pleasure to appear before you today on behalf of the more than 25 million Americans in 46 states who rely on NRECA member systems to supply dependable and affordable electric energy for their homes, farms and businesses. The leadership of the nation's 1,000 consumer-owned rural electric systems greatly appreciate the ongoing interest and support which our program has received from the members of this panel.

The rural electric family is uniquely positioned to understand and appreciate the problems facing rural America. Our rural electric co-op member systems can say, without equivocation, that rural America is facing its most severely trying situation since the Great Depression. Because of the increased complexity of the national economy, the problems may have deeper roots and may be much more difficult to eradicate.

We commend the Committee for taking an active, concerned leadership role in this regard, and we offer our full support and assistance to the Committee in carrying out those initiatives that can make a difference for the rural areas we serve.

Let me speak to those rural areas. While other sectors of the economy have improved since the last recession, the situation in rural areas has either remained static or deteriorated. The gap between rural and metropolitan areas has widened in terms of the measurable statistics available -- unemployment and underemployment, poverty, substandard housing, health care facilities and a host of other categories.

Rural electric systems reflect the economic decline which has drastically reduced load growth for many of our systems. In fact, today, 222 of the nation's 930 rural electric distribution systems are losing consumers.

The problems facing many of our systems have spurred initiatives to expand our already considerable base of service and assistance to rural consumers. And our members, Mr. Chairman, have told us emphatically and repeatedly that they want to do more.

THE ROLE OF THE RURAL ELECTRIC COOPERATIVES

Recently, NRECA held a series of four field hearings across the country which were attended by 500 rural electric directors and managers. The predominant sentiment expressed at each of these hearings was that the Rural Electrification Administration (REA) and the rural electric systems must become more involved in community and economic development, that our member systems must become activists, catalysts for development.

The matter of expanding REA's role into rural economic development is one that has been intensively studied by NRECA. We will discuss this important point later in this testimony. Let me touch on a few of the national efforts which NRECA has spearheaded this past year, efforts which have led rural electric cooperatives to:

> Sponsor local "health fairs" to screen large numbers of rural Americans for early signs of disease or disability and to provide them with information on how to live healthier lives;
>
> Join the NRECA-sponsored National Rural Telecommunications Cooperative (NRTC), a group that will direct the development of satellite-based telecommunication services for consumer, educational and rural utilities business applications;
>
> Focus new initiative on economic development programs in rural areas. For example, hundreds of co-ops are making use of a "how to" manual on economic development compiled and disseminated by the NRECA staff. The manual is designed to provide community leaders with information on matters such as promoting job creation from existing local business and industry, attracting new employers to the community, improving a community's potential as a location for economic investment, and preparing an economic development plan.

These are but a few of the programs rural electric co-ops are undertaking on a nationwide basis. It does not take into account the numerous other ways in which rural electric co-op systems -- on their own initiative -- are assisting their consumers and the vital role that rural electric co-ops across the country play in community and economic development.

I think it is worth mentioning that since the 1960s, when statistics began to be kept, rural electric systems have been involved in community and economic development efforts that have created nearly one million new jobs.

REA'S CONTINUING ROLE

Mr. Chairman, REA is critical to these continued efforts. REA is and should continue to be the solid foundation upon which rural electrification is built. We are pleased to hear that the Committee shares that view, and very much appreciate the Committee's leadership in this area. We also appreciate the Committee's continuing strong support for the concept of a Rural Electrification Administration that is relentlessly aggressive in seeking solutions to the very serious problems facing our nation's rural areas, and by extension, to our nation's rural electric cooperatives. This is not, however, the agenda of this REA Administrator, nor unfortunately, of this Administration.

Historically, the loan programs of the Rural Electrification Administration and the technical support which comes through that agency -- the programs in which the federal government and a local community form a cooperative, working partnership to accomplish a specific objective -- have proven to be exemplary models of how other such programs could work.

To get to the heart of the matter, the reason the rural electrification program has been so successful is because it is a federal program that is locally implemented, locally operated and locally controlled.

It is essential that any rural development programs incorporate the same federal-community partnership that has made rural electrification so successful. We strongly believe this same relationship is absolutely critical if federal rural economic development programs are to be effective.

We have seen that when the few on the top of the pyramid dictate with great specificity the exact nature and extent of use of federal programs, the benefits are negligible. It is difficult, at best, and more likely impossible for a rigid, Washington-based program to be responsive to the actual, changing needs and conditions of a local community.

Furthermore, an inaccessible, unwieldy program is probably worse than no program at all in terms of what it can accomplish.

You have found in your hearings in Tifton and Moultrie, Georgia, that monies from federal programs are only partially used because of the difficulty in accessing them. These programs are not being used by the people for whom they were intended. In addition, we have found that it is extremely difficult for communities to get needed grants and loans because they are directed and disbursed by several different federal agencies, there is no single, ready source or expertise available for the part-time, small community administrator to determine what is available and how to get to it.

Simplification and consolidation under one -- or at least fewer -- roofs would appear to be desirable. This fact lends added credence to our view that one federal entity could serve in an "umbrella agency" role.

JOINT REA/LOCAL RURAL ELECTRIC CO-OP PARTNERSHIP EFFORTS

It is the small communities with the greatest need which do not have the access to technical assistance and federal money.

It is also these same communities -- many of them at least -- in which the rural electric cooperative is an influential, competent business with deep roots and a sincere and vested interest in improving the financial condition of the cooperative, the community's economy and quality of life of its citizens. In these communities, the rural electric cooperative is in a position to serve as a catalyst for economic and community development efforts.

This concept provides what we believe to be the most viable solution: to invert the pyramid by placing these small, grassroots communities at the top, so that economic and community interests and concerns provide the motivation for improvement activities.

The network for this concept is already in place.

REA, the federal agency, already has a long-standing relationship with one of the major components of the rural community, and there is the commitment, certainly on the part of the rural electric cooperatives and most probably among the professionals at REA, to make these programs work and to produce the jobs and economic stimulation our rural areas so desperately need.

Therefore, a special, blue-ribbon panel of rural electric leaders is studying the expansion of the role of the REA to include economic development activities and to expanding the mission of rural electric systems throughout the nation to include community and economic development.

Having said that, Mr. Chairman, we must point out that rural electric systems could not take on the additional role of rural economic development without some help. It will be a long and difficult task to bring the necessary economic and employment diversity to rural areas. And it will require a substantial investment from the rural electric cooperatives and their communities with a sustained helping hand from government.

We offer some specific directions the Congress might examine to forge the effective, sustained working relationship between local communities, their rural electric cooperatives and their government to make these programs successful.

THE RURAL COMMUNITY -- THE CORE TO ECONOMIC REVITALIZATION EFFORTS

We believe that by working together through the combined REA/local rural electric co-op effort one small success can lead to another, and we have some ideas on how we ought to go about getting this under way.

Two homegrown "megatrends" are that "small is good" and that alongside high-tech is the need for "high-touch." These are rural characteristics. As we develop policies and ignite old and some new programs to revitalize the rural economy, we should not neglect to accentuate these characteristics, for they are what so many have found to be truly appealing about rural America, and based on numerous studies -- including one conducted by NRECA -- these are the real "incentives" for those who have chosen to live in rural America.

Before I discuss specific ideas, I would like to touch upon the core basis for any innovative rural development solutions.

Federal programs often seem to rural people to be at once at a distance and very indirect.

Many programs have been designed with other than local and user needs and wants as their bases. Funds go unused and programs are inaccessible because of the lack of emphasis on local community involvement, local program design and local implementation. It makes sense to allow for reasonable options and choices by those who would use the programs. The more stringent federal regulations are, the more the objectives of the program will be diluted or ineffective. There are sound reasons for a flexible national strategy from the bottom up, making the local community the center of the design. Again, this brings us back to the very nature of the rural America: i.e., "small is good," coupled with the "high-touch," or the personal touch.

The community is an essential component of the social well-being of rural Americans. The community is even more influential where the population density is low.

The problems of rural America are community problems with community solutions, and state and federal systems must positively reinforce this approach.

Within these local communities, rural electric cooperatives can be mobilized as the most effective advocates for community and economic improvement.

Finally, community-based programs should develop talents and resources which will provide long-term improvement, not "quick fixes."

NRECA RECOMMENDATIONS FOR RURAL DEVELOPMENT AND ECONOMIC REVITALIZATION

We recommend that all federal rural programs be examined and with a view to redesign, so that funds are targeted to be more sensitive to rural conditions. We strongly concur with the central theme of the article in the Kansas City Federal Reserve's Economic Review by economists Mark Draberstott, Mark Henry, and Lynn Gibson, that one does not have to choose between those things that make economic sense and those that are socially desirable: both are possible with good planning.

Specifically, at the center of our recommendations are three key points:

1. Put the design and implementation of rural development programs back with the grass roots local community by providing simplified access and minimal, flexible regulation to provide the community with greater latitude and options.
2. Consider using the REA and rural electric cooperatives as a conduit for rural development programs to provide necessary liaison, support, technical assistance and coordination functions in the community.
3. Consolidate and simplify rural development programs and consider putting them all under one roof.

These three key innovative ideas are expanded below with specific recommendations that stem from our frequent and systematic contact with the heart and mind of rural America.

We strongly recommend:

1. Legislation to mandate the consolidation and simplification of rural development programs, such as housing, business and community development loans and grants and other essential public services and planning. This would maximize the effectiveness of these programs.
2. Allowing rural electric cooperatives to invest funds in other community services such as water and sewer systems. Eliminate present limits on rural electric systems' ability to participate in such activities. This would allow for more funds for essential rural services.
3. Accommodating liens of other lenders to facilitate rural electric cooperative financing required for rural development projects.
4. Use rural electric cooperatives and their proven network of generation and transmission cooperatives, statewide associations and distribution cooperatives as catalysts for the initiation of economic development plans, to help with applications for grants and loans, and to provide a place to meet and plan programs locally.

This is in the true tradition and commitment of rural electric cooperatives to provide service in the community and is based on the principle that solutions which are community-based are most likely to work.

5. Support programs that encourage technology transfer, for example, the joint NRECA/TVA project currently under way, which can be channelled to local communities throughout the country. This transfer will give local communities access to tried and proven programs developed over the years by TVA. These programs should be vigorously monitored to find out scientifically what works and what does not work in community economic development and what modifications have to be made to make these programs work.

6. We recommend consideration of an job training/infrastructure rebuilding project. This would employ displaced rural workers, improve the infrastructure for economic development and keep people in rural areas where they want to live. The motivation to rebuild one's own community clearly will work to benefit the people, their communities and the country.

7. Banking and Financing - Because of the difficulty in financing rural development projects, we recommend the creation of a rural development bank which would guarantee loans and become a secondary market for local banks. There is a need for a federally created finance bank which deals in secondary markets and pooled projects to assist local banks to finance projects and to finance start-up businesses and infrastructure development.

8. Promote rural telecommunications, which provides electronic highways that instantly remove the economic arguments of geographic isolation. A related recommendation is to improve digital switching capabilities in rural areas. Rural areas must have the latest telecommunications capabilities, to be on line economically. We have helped to form a National Rural Telecommunications Cooperative to help insure access equity for bi-directional business data transmission and TVRO programming.

An attachment to my written statement will provide the Committee with some additional background and statistical data to further support NRECA's recommendations.

Mr. Chairman, we all have a pretty dismal picture of the economic situation in rural America. And I won't quibble that it is so.

Yet, I would like to point out several things that make our rural electric leadership, rural people themselves and me confident that though the road to recovery may be long and treacherous, we can make the journey.

The first thing . . . and this takes us back to the deliberations and actions of this august body in decades past . . . reflects the effects of public policy put in place years ago.

For example as a result of such social reforms as Social Security and the implementation of retirement programs, many of the people who have chosen to spend their golden years in rural America have disposable income beyond the day-to-day living expenses. That's one kind of market.

These people are also a strong source of participation in the rebuilding efforts. Many are experts in the skills and disciplines necessary to these efforts, and many have the expendable time to roll up their sleeves and pitch in.

There are also, Mr. Chairman, valuable assets which have developed in rural areas as a result of the rural development and highway transportation programs of the 50s and the 60s and beyond.

For example, for the most part, we have a workable, efficient interstate highway system which makes it possible to move raw materials and products from rural areas to the cities.

Though we still have a long way to go in this respect, many communities have improved community infrastructure facilities such as water and sewage treatment and fire protection. This has resulted from some of the programs discussed earlier.

Rural electrification is a prime, shining example. The Rural Electrification Act of 1936 has literally transformed the face of rural America, and our member systems are constantly improving service, heavying up to meet increasing demand, providing sophisticated energy planning for residents, businesses and industries. They are an indispensable building block component as we work for more jobs.

Educational facilities in rural areas, while perhaps not up to the standards of a polytechnical high school in Brooklyn, or Cleveland or Baltimore, are sound and turn out students who can read and write and continue to learn. And the availability of modern electronic communication techniques cannot help but to improve their capabilities.

There is, as well, in rural America, a well-documented work ethic, a work ethic that pushes evermore toward more efficient production, toward more efficient technology. And there is a work force in which that ethic is engrained.

These qualities and facilities comprise a sound, strong foundation on which to build for rural America's future.

And, Mr. Chairman, we've talked economics and jobs and banking and deregulation here today. But, I think it is important to maintain some perspective on what it is we're trying to preserve. What we're after here is the maintenance of a life and workstyle that is basic to this country's development and philosophy. And that is worthy of our best effort.

Mr. Chairman, I would be pleased to respond to any questions you or any of the Committee members may have. Thank you.

Attachment to the statement of Bob Bergland follows:

ATTACHMENT

KEY DEMOGRAPHIC TRENDS

First of all, we think the demographics that follow confirm our view that rural economic development ought to be community based and that efforts should focused on retention and expansion of existing industries rather than the attraction of major new industry.

* The service sector is providing most new rural jobs -- 1.1 million new jobs from the years 1976 to 1984 -- and both large and small firms are contributing to that expansion. These jobs are often at lower salaries than metro-related jobs.

* Small manufacturing firms contributed 185,000 new jobs in rural areas, while large firms generated only 76,000 new jobs (during the same period from 1976 to 1984). This seems to argue for a strategy of promoting small manufacturing companies which create jobs that require the skills possessed by displaced rural farmers and other workers.

* In 1985, the non-metro unemployment rate averaged above 9 percent, more than 2 points higher than the metro rate. The non-metro rate has fallen much more slowly than the metro rate during the current recovery. These figures are even worse than they appear, however, since they fail to include the under-employed, those who have dropped out of the job race and those who have exhausted their unemployment benefits. Ninety percent of all counties with extremely high unemployment rates are rural.

* The non-metro poverty rate was 18.3 percent in 1985 compared to 12.7 percent for metro areas. During the most recent recovery from the recession of the early 1980s, the metro rate has improved while the non-metro rate has not. Thirty-eight percent of the nation's poor and 67 percent of all substandard housing are in rural areas.

* The proportion of total family farm income earned from off-farm sources has increased from an average of 40 percent in 1960 to more than 72 percent in 1983, reflecting the expanding need for off-farm jobs for the small, family farmer.

These statistics provide a stepping-off point to constructive community action supported by state and federal governments and they reflect the desperation of many rural communities. Typically, a rural community losing jobs and people embarks upon a course of industrial recruitment to save the day. It is not a viable economic development strategy because it doesn't work. Why?

* As many as 25,000 development agencies around the country compete for the few thousand companies that relocate each year.

* States and communities in the competitive rush put together incentive packages, "giveaways" to attract new industry.

* Many companies attracted with the artificially sweet incentives either leave when the incentives run out or use the relocation as a springboard to leave the country.

State, county and local governments have realized that they cannot compromise their future by giving away the store, and rural communities must heed that lesson: companies relocating in rural areas must pay a fair share. A substantial financial commitment ensures that a company will want to stay rather than seek a better deal somewhere else.

If, on the other hand, the reasons for locating in a community are access to a reliable, skilled, educated and committed work force and a healthy, clean environment in which to work and make profits, then the company is more apt to stay as a long-term citizen.

However, it is our studied opinion that these options are few and far between, and that businesses already in place offer a much higher potential for the creation of permanent jobs.

DIFFICULTIES IN RURAL CAPITAL FORMATION

There is a trend in banking which is similar to the trend in farming, fewer, but larger operations. Predictions are that in ten years the present 14,000 commercial banks will be reduced by half. These larger banks, as with other large business organizations may well be less concerned with local communities, with only minimal interest in making funds available for local business development. It is not difficult to envision, with the interstate branch banking fostered by deregulation, that branch banks will siphon off local funds into national money markets, even into international investments.

The dangers of banking deregulation on rural communities, as reinforced by results observed in airline deregulation, are a reduction of banking services, a reduction of fixed-rate, long-term loans, increased cost of banking services and reduction of services, money flowing out of the community and loss of interest by bankers in local investments.

In comparison to other banks, rural unit-banks are usually small, geographically isolated and serve relatively undiversified markets. These characteristics restrict the type and maturity of loans and the ability to attract deposits and non-deposit loanable funds, reducing their ability to serve as financial intermediaries.

Rural banks play a prominent role in supplying credit in rural markets because of the lack of other financial institutions. These banks remain important to the traditionally dominant segments of the rural economy: consumers, agriculture, housing and small and medium size businesses.

The main role of banks in the agricultural credit market is for short term rather than long term credit. The relative importance of banks in supplying both types of farm credit has been declining.

Local governments finance their activities principally through taxes, federal and state grants-in-aid, and the bond market. The new tax law has put a burden on small communities because it has removed tax exempt financing of development projects. Rural governments as well as rural banks are in a poor competitive position due to their small size and isolated locations, which makes participation in larger financial markets more difficult.

Most studies have been consistent with the idea that local commercial banks supply small business with most of their financial needs. Commercial banks are only able to provide short and intermediate term debt financing due to the nature of their loan funds. Federal programs such as FmHA, SBA, HUD, and EDA have been utilized only to a limited degree by rural small businesses.

The volume of loans and loan guarantees from such services have always been limited. The most prevalent sources for financing of small business have been the owner's saving and borrowing from family, friends and associates.

New ways of financing rural development projects through local banks have to be developed. Without these financial resources, rural areas will always be trailing behind in correcting the imbalances between metro and non-metro America.

# # #

TESTIMONY BEFORE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

I am Robert Rodale, Chairman of the Board of Rodale Press, and President of the Rodale Institute.

I'm here today to talk about the most important option for the future of rural America: regeneration. I will conclude my talk by giving you five policy options. But let me begin by telling you a brief story. This is the story of the people of Greenfield, Iowa, a town of about 2,100 located in Adair County, population 9,000. This is a story about rural America in 1987.

This is not the type of farm town story you might have come to expect. It is not a story about foreclosures, suicides, or despair.

This is a story about a community where everyone is planting marigolds as part of their "Plant Gold in Greenfield" campaign. A story about a community where all children from kindergarten through twelfth grade recently completed an exercise in which they list their hopes and dreams for their community's future. This is a story about a community in which every person has the opportunity to sell or share his skills and talents with other community residents through a county-wide directory, "People Pages." This is a story about Iowa's #1 "good news" town -- America's #1 Regeneration Town. This is a story about hope... a story about capacity... a story about wealth.

In most ways, Greenfield, located fifty miles west of Des Moines, is a typical small town. What makes Greenfield different from most communities is that its residents decided to build on their own resources to strengthen the local economy and take charge of their future. They are not waiting for others to solve their problems.

Resources from the private sector, state and federal governments can help and these actors have a role to play in rural revitalization. But the message that the people of Greenfield are giving the rest of the country is that communities which want to revitalize must do it primarily for themselves.

Instead of taking inventory of their needs, they have taken stock of the assets and are building over a dozen projects to rekindle community spirit, strengthen the local economy and improve the environment.

Instead of answering the question: "What should the federal government do to revitalize rural America?" I would like to answer a different question: "If people are going to revitalize their communities, what can state and federal governments do in partnership with each other and with universities and the private sector to help the process of regeneration?"

There are great resources in rural communities which need to be marshalled if any long-term revitalization of rural America is going to take place.

The biggest problem with traditional economic development efforts is that they don't focus on the most important resource base of communities: the people who live there.

Development schemes often do an impressive job of number-crunching and modeling but don't pay enough attention to the human reality. The first step in community regeneration is not to construct or revamp complex economic structures, but to get people actively involved in the process of revitalizing their communities, helping them build a sense of hope and possibility by giving them specific project options which they can build out of their existing resource base.

It is essential for people to have the opportunity to develop their own visions for their community's future and their own definition of "growth," "progress" and "development." After they get excited and involved they can work on larger efforts to strengthen the economy.

The four-point strategy which we and the Rocky Mountain Institute of Colorado have used successfully for community-based economic development is:

1. Plug the leaks in the local economy.

2. Invest in the existing local businesses.

3. Encourage the formation of new enterprises from within the community.

4. Target those industries for recruitment which fit the vision of the desired future for the community.

For every 10,000 people, American communities spend an average of $90 million each year on food, energy, health care, home repair, housing, recreation and transportation.

Communities often spend most of their gross income outside the community. In effect, the bucket of their local economy is leaky. Most economic development experts try to tell them how to pour more water into the top -- despite the fact that the "water" is becoming extremely difficult to find. Many communities are now discovering that an essential step in strengthening their economy is to plug those leaks in the bucket and invest in themselves.

Every dollar spent within the community will have the impact of $1.25 to $3.00 worth of economic activity. Please note that we are not saying that communities should try to produce all the goods and services they use or that they should try to cut themselves off from the outside world. We are only suggesting that communities do not build futures that work to their comparative disadvantage.

Almost every community in rural America could leverage millions of dollars by cutting back on what they are spending for food and energy alone outside their community. In 1980, for example, the typical community spent more than twenty percent of its gross income on energy. Ninety percent of these dollars immediately left the local area. For an average-sized town of 10,000 that would amount to over forty million dollars. Dollars which, if paid to a municipally-owned electric facility, such as that in Osage, Iowa, would have been recirculated through the economy generating over a hundred million dollars worth of business activity.

The value of internal resources within communities are often ignored in traditional development schemes. But this is the heart of the American economy. Sixty-six percent of new jobs in this country are created by firms of 20 or less employees. Development efforts that try to attract outside industry are attempting to purchase expensive external resources. Investment inducements almost never do what they are intended to accomplish. Even when they appear to entail no direct costs, they're enormously expensive in foregone tax revenue. There are 25,000 towns in the U.S. vying for 500 major new factory starts each year. Rural towns simply cannot compete in attracting these large external inputs.

So let me answer the question about the appropriate roles for the state and federal governments in the regeneration of rural America. Here are five policy options which we recommend:

Policy Options

1. State and federal governments could pool resources with foundations, universities, and the private sector to finance regionally based mechanisms to fund rural regeneration projects.

These could be modeled after the Winthrop Rockefeller Foundation's recently created Southern Development Bancorporation, a one-bank holding company which, in addition to being a commercial bank subsidiary, intends to establish affiliates that will: generate local economic development programs; make equity investments in locally-owned companies; provide short-term loans to self-employed local residents; and develop low-cost real estate.

This ambitious effort could be emulated throughout the country.

2. Establish a Fund for the Regeneration of Rural America. This fund would be administered through state governments to community groups working to strengthen the local economy, to entrepreneurs looking for seed capital to launch new ventures or expand existing ones, and to support regeneration centers and other community regeneration projects.

3. Fund the projects which are already working throughout the United States to give communities the necessary tools to rebuild their economies. Some of the best of these groups in the country are The Regeneration Project, The Rocky Mountain Institute, The Center for Neighborhood Technology, The Institute for Local Self-Reliance, and The Missouri Community Economic Development Projects.

4. Support state efforts such as the excellent agriculture economic development programs which Jim Hightower is successfully running in Texas and Gus Schumacher is working on in Massachusetts. Particular emphasis should be made on organizing direct marketing, farmers' co-ops, farmers' markets, crop diversification, and expanding opportunities for farmer-owned packaging, distributing and processing facilities.

5. Support research efforts exploring the effects that current agriculture programs have on rural community life.

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Attachment follows: Appendixes A and B.

APPENDIX A

REGENERATION IN AGRICULTURE

Regeneration is proving to be workable and profitable on farms throughout the United States and the world. Regenerative agriculture is a practical system that maintains productivity and increases profitability, while providing lasting solutions to challenges such as preserving and regenerating our soil, stopping environmental degradation, reducing the need for government subsidies and lowering farmers' productions costs.

Rural economies can be strengthened as farmers make the important transition to regenerative agriculture. By adopting resource-efficient farming techniques, billions of dollars could be saved each year, and millions of new jobs could be created. Researchers at the Rodale Research Center have put together comprehensive accounts of these figures. A few of these numbers are highlighted here:

Lower Input Costs: Nationally, fertilizer savings could be as high as $9.1 billion, and pesticide savings, $1.6 billion.

Increased Employment Potential: In the United States, over 1.3 million additional jobs in agriculture could be created.

Food System Employment: If U.S. food and agriculture policies were changed to encourage smaller size regenerative farming, between 7 and 10 million additional jobs could be created in the entire U.S. food system. Economic and employment opportunities generated in this manner would likely provide a relatively stable social and economic base for rural communities.

Reduced Soil Erosion: Regenerative farming techniques decrease soil erosion. A reduction in soil erosion rates could reduce the loss of nitrogen from U.S. farmland by 4.2 million tons -- $1.9 billion worth.

Higher Profits for Farmers, Savings to Consumers: A regenerative agriculture system reduces input costs, eliminates environmental costs, eliminates present subsidies, decreases interest payments, and reduces food transportation costs. All together, these savings total $127.8 billion, resulting in increased profits to farmers and savings to the consumer.

APPENDIX B

WINTHROP ROCKEFELLER FOUNDATION

The Winthrop Rockefeller Foundation recently created the Southern Development Bancorporation, which intends to finance regionally based organizations to fund rural regeneration projects. The Foundation has made an initial commitment of $3.75 million to capitalize the venture. Of the total, $2.75 million is for the bank and affiliates; $1 million is for bank-related non-profit operations. An additional $4.74 million is being solicited in Arkansas and nationally to complete capitalization. The following affiliates are planned:

Southern Enterprise Group, a non-profit corporation for attracting private and public resources to generate local economic development programs.

Southern Ventures, Inc., a for-profit venture capital company owned by Southern Enterprise Group, which will make equity investments up to $300,000 in locally-owned companies.

Good Faith Fund, a seed-capital fund operated by Southern Enterprise Group, which will provide short term loans from $500 to $5000 to local residents interested in self-employment. It will extend small amounts of secured and unsecured business loans using peer group support techniques.

Opportunity Lands Corporation, a for-profit real estate development company which will take such initiatives as development of incubator and industrial buildings to reduce unemployment. It may also later undertake low-and-moderate-income housing development.

STATEMENT BY KEN JAMES
BEFORE THE SENATE AGRICULTURE COMMITTEE
MAY 5, 1987

To introduce myself, my name is Ken James, president of Appalachian Computer Services in London, Kentucky. London is located halfway between Lexington, Kentucky and Knoxville, Tennessee on Interstate 75. I certainly appreciate the opportunity to testify today concerning rural economic development.

In 1970, we moved to London, Kentucky where we became associated with Appalachian Computer Services. We raised a family and invested effort and money in the company and the community. We have always been concerned about the economic growth and educational problems in the State. In the last few years, we have become more involved in attempting to contribute in overcoming some of those problems. I have become involved in the vocational system by serving on several commissions as well as on the Governor's Council on Vocational Education and approximately a year ago was appointed to serve on the State Board of Education.

In order for economic growth to take place in rural areas such as in the Fifth Congressional District in Kentucky, we must overcome the existing educational deficiencies. The high school dropout rate in our district exceeds 43%. Only 7% of our adults complete four years of college.

We are working on these problems. An organization has been formed due to a keen interest on the part of Representative Hal Rogers from the Fifth District, business people, parents and educators in the area. This organization, Forward in the Fifth, focuses on education improvements in the Fifth District as a major strategy for long-term economic growth. My wife was asked to become chairman of Forward in the Fifth. She voluntarily spends approximately three days a week in this endeavor.

Our company, ACS, provides services in the management of information. In the early 1970's, we were a small, struggling company with less than 30 employees. We were bankrupt and wouldn't admit it. However, with help from a locally-owned company that had confidence in us and by drastically reducing expenses, we did survive.

That locally-owned-company provided facilities for virtually no compensation, paid us generously for whatever we did for them, and advanced us monies for things we were going to do for them in the future. Today, we would call that a form of the incubator approach. The president of that company is on our board and is one of our stockholders today.

We presently have over 1,600 employees in London, Berea, and Beattyville, Kentucky. We recently announced a fourth location, which we will be opening in Wayne County, Kentucky. We will be employing over 2,000 in Appalachia by year end.

In gross revenues, our company has grown from less than one million dollars in annual gross income in the early 70's to over $33 million in annual revenues at the end of 1986. We have been successful and have had an average annual growth rate of approximately 30% since the late 70's. We have also been profitable since the early 70's. The management of Information Services provided by our company are not tied to any specific location. However, you must have a good labor force that is trainable and willing to work.

ACS provides services throughout the United States and over 95% of our revenues comes from outside the state of Kentucky. 75% of our revenue source comes from private industry and 25% from federal government.

That's a recap on ACS and where we are today. I'd like to cover some of the areas that we think are important if rural communities are going to be able to create jobs and obtain economic growth.

I want to re-emphasize that education is the key to economic growth. We need more communication between the educational leaders and teachers and the industry and business leaders so that our educators understand the basic needs required of individuals in the work place.

When I was growing up in rural Kentucky, education was not a high priority. It was not until later in my life that I really became aware of the importance of education. One of the barriers to overcome is to train and educate people, such as from the Fifth District, to attack and solve their own problems. The Fifth District and many other areas have depended on natural resource industries for years. Those industries have fallen on hard times and the people do not know where to turn. In many cases, they are waiting for someone to come in and solve their problems. A common attitude is: I wonder when someone is going to create new jobs for us? I wonder when a new plant will move into our area?

There is a nationwide tendency for communities to attract outside companies for new jobs and overlook the possibility of helping a local company grow. If we move a 500-job organization from Ohio or Michigan to Kentucky, then we have not really created jobs; we have re-located jobs.

The growing of jobs, in my opinion, is where more emphasis needs to be placed. We need resources and money to encourage people to become entrepreneurs and to create businesses. Through training programs, we could develop individuals into skilled leaders and managers in business and industry.

In the early 70's, we found it very difficult to expand because there was not much encouragement for organizations such as ours to succeed. Financial institutions did not clamor to work with us. After struggling many years and finally proving we were for real, then we started getting the encouragement and financial capital that we needed to expand. Once that became available, we started realizing much faster growth and success. The last six or seven years of ACS's history is where our real growth has occurred. If we had had more capital in the 70's, our growth could have been much more rapid. We had 150 employees in 1981; once we started receiving the capital we needed, ACS increased by tenfold. There is a need today for long-term reasonable rate financing.

A large percentage of the people we employ come from families with a background in coal and related industries. Most of our employees are young; average age of approximately 27. The educational profile of our employees is that over 95% have a high school education or better. 7% have college degrees.

Many of our employees come from low income families and their expectations in life were not too high. There was not always encouragement or a very positive attitude toward education. An exciting thing happening to our employees is that their expectations have been heightened. They now recognize they can break out of the circle, so to speak, and have a vision for improving their life standard.

In some of our employees who have been working for us for several years, we have seen a tremendous change in their attitude toward the value of education and the value of being a good employee. They are encouraging their children to exceed the traditional family education background.

ACS provides its own in-house 15 week training program for our employees. In many cases, we have taken advantage of the Job Training Partnership Act (JTPA) through the local Area Development Districts. Over the last seven years, we have trained approximately 2,000 people, 500 of those utilizing JTPA funds. 95% of those folks became employees of Appalachian Computer Services.

It is important to point out that our training program gives employees a skill that is marketable throughout the nation. Those who have to leave our area for various reasons have skills to secure jobs in other parts of the country. We have former employees throughout the U.S.

Over 90% of our supervisors, managers and other leadership have been promoted from within the organization. This is a tribute to the dedication of the work force and symbolizes what individuals in our area can achieve.

There are many positive and negative sides to our success that time does not allow us to go into. Good roads, utilities and the airport facility in London, all of which have been supported by the Appalachian Regional Commission, have been vital to our success. Although no commercial air travel is available, we have been able to convince a major express carrier to service our area at the local airport. Also, due to the increasing growth in the mail volume that ACS brings into the area, a decision was recently made to build a regional post office in London.

As a principle employer in our region, we are very concerned and sensitive to problems such as dropout rates, high teenage pregnancy rates, infant mortality and single parents.

ACS is proud of what we have done but there are tremendous needs in the Fifth District in Kentucky. With more opportunities available for entrepreneurs to grow new businesses and industries, and encouragement for those people--with special training available for those individuals that would in turn give them the courage to step out on faith and with non-profit incubator type companies that would be primarily supported by soft money, then we could have a great impact on economic development on rural America.

The research that has been done by universities and other organizations in the development of new products and new services is in many cases sitting on a shelf, waiting to be implemented. The Incubator Company could become involved in assisting in finding needs for services and products, working with potential organizations and individuals who could meet those needs in the right location.

Our company provides services in the information industry, which is the fastest growing industry in the U.S. At the present time, more than half of our entire work force works in some kind of position involved with information gathering, processing, distributing and utilization. This means highly skilled and knowledgeable persons are required. It is projected that by the end of this century as much as two thirds of all the work will be information related. In my opinion, we need to put in place the situations which will start the process of GROWING JOBS. We believe that ACS has proven that this concept will work. With encouragement for business leaders, a large portion of this growth can take place in rural America.

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